

# FATAWA ISLAMIC BANKING 2000-2021

**From:** Mwamini

**Sent:** Sept. 24, 2020

**Subject:** Is profit of Islamic banks permissible

**Question:**

Asalam aleikum warahmatullahi wabarakatuh..

I have a question on Islamic banking. when you put some cash in a fixed account, it comes with a little bit extra after the specified term. This is on the basis on Mudarabah contract. Is this allowed or is it similar to Riba/interest?

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mwamini

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Islamic banks accept time deposits on Mudarabah basis. This contract requires determining rate of distribution of profit. What is then earned by the depositors is a profit which cannot be known or fixed in advance. What is fixed in advance is the share of profit not the periodical profit to be distributed. This way is Halal and it was known and practiced at the time of the Prophet, pbuh. This is definitely not Riba. They may give you an approximate rate or amount only as an indication, this is also permissible

Some Islamic banks unfortunately invented another way which is not permissible in Shari'ah and it is described by the OIC Fiqh Academy as pure Riba. T goes as follows: you place the money for instance \$1000, the bank, on your behalf, buys coconut oil with it from the commodity market in Labuan, Malaysia or platinum from London Metal Market, sells it to itself on your behalf for a higher amount say \$1050 due to be paid to you after 6 month. The bank then tells you from the beginning that you earn fixed 5% every six month (as it repeats the same every six month). This is definitely Haram and exactly Riba in disguise.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

[www.kahf.net](http://www.kahf.net) <<http://www.kahf.net/>> ; [www.kahf.com/blog](http://www.kahf.com/blog) <<http://www.kahf.com/blog>>

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**From:** Dawod

**Sent:** Wednesday, September 23, 2020

**Subject:** Are Islamic banks, really, Islamic?

**Question:**

Wa alikumussalam wa rahmatullah,

Jazakumullahu Khair,

Many people in our country thinks that these Islami banks are like other banks. Their banking activities are similar to other banks only difference is name. Some bank has changed their name by adding "Islamic" at the end (former NRB Bank, now NRB Islami Bank) as Islami banks collects more deposits from Islam loving people.

So people thinks, it is bankers business policy to survive in the marker.

Should we put our trust in their declaration?

Best regards

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Dawod

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This is incorrect, Islamic banks follow Shari'ah as advised by their Shari'ah advisors. They make mistakes like you and I. But they do not make their operations on Riba basis but on Sale on credit, leasing and sharing. Which are all Halal.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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# FATAWA ISLAMIC BANKING 2019

**From:** مجد

**Sent:** Monday, September 30, 2019

**Subject:** هل الأرباح من هذه المراجعة جائزة شرعا؟

السلام عليكم، لدي مبلغ من المال أودعته في حساب استثماري في بنك اسلامي تركي بمراجعة شهرية من البنك، هل الأرباح من هذه المراجعة جائزة شرعا؟ جزاكم الله خيرا .

**My Answer:**

هذا على العموم حلال بإذن الله تعالى فاستعمالهم للتورق ليس كثيرا وهو بفتوى من مفتيهم.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**From:** Adem

**Sent:** Monday, June 17, 2019

**Subject:** Islamic banking windows

I have a few questions for you Dear Professor.

1. In one of Ethiopian students group chat discussion one of our friends said that "...Now, windows are prohibited in many countries including Turkey" ... I don't get his point if he refers to the prohibition from the viewpoints of the shariah laws or the country rule. what is your comment or opinions regarding his statement... can I get some reference in any circumstance regards to his points?

It is permissible in Shari'ah to create (and of course deal with) an Islamic branch or window by a conventional bank and also by non-Muslims, fully or partially as long as such entity, branch or subsidiary has independent account from the interest activities.. Many countries have such window or branches or independent entities that are fully owned by a conventional non-Shari'ah compliant company\bank. Some countries, for regulatory or for monopolistic objective do not allow that.

2. In Ethiopia, there are a few fully fledged IFB - under the ways to establish. so, what is the most important "feasibility studies" we look at to establish Interest-Free Banking under normal standards? Because, as far as my understanding nowadays, in Ethiopia, we have not a single strong Islamic institution, expertise, and experienced human capital. So, what are your opinion and any solid studies as a reference related to a similar experience you may know?

All Islamic banks, everywhere in the World as founded after some initial study of its local market. You need a local feasibility study that focuses of the potential clients nad make appropriate business decision on such basis.

For the Shari'ah aspects and templates of contracts, of course I can help producing all that is necessary in this regards and I have done that in the past for several IFIs.

Jazakalay wakeyaran

Adem

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Adam

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh Please see my answers below your questions?

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

[monzer@kahf.com](mailto:monzer@kahf.com); [www.kahf.net](http://www.kahf.net); [www.kahf.com/blog](http://www.kahf.com/blog)

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**From:** Jowaad

**Sent:** Wednesday, May 29, 2019

**Subject:** Al Rayyan Bank United Kingdom Home Purchase Plan

Assalamoalaikum dear Dr Monzer Kahf.

I am 36 year old brother from UK. I am married with two young children currently living with my parents Alhamdulillah.

Please can you advise, based on your expertise if the Home Purchase Plan offered by UK based Al Rayyan Bank formerly called Islamic Bank of Britain (It is a diminishing musharakah with ijara) is halal? Please let me know if you have not studied this plan and require more information, jazakAllah khair.

Jowaad

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Jowaad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Alrayyan is an Islamic bank and has its own Shari'ah Board that approves all its contracts. Also declining co-ownership with Ijarah is in general permissible unless it has any weird conditions. But it is most likely that Alrayyan declining co-ownership does not have such bad conditions, If you want a specific opinion, you need to send me a draft contract and I can study it and then give you my opinion on it.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**From:** Aja Fatou

**Sent:** Monday, February 25, 2019

**Subject:**

Dear Dr Monzer,

It's been a while. How is work at Turkey?

Dr I have question. My husband wants to start saving for her mum's hajj package and the micro financing institution running that program will be paying profit on the hajj savings account.

Is it acceptable to first save your money with them for that purpose and two the profit earned on the savings is it permissible to be used for the payment of hajj.

Regards.....

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Fatou

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Thank you for your kind letter, we, Mayssun and myself, are fine enjoying beautiful Istanbul.

Micro finance in most countries are based on interest regardless of what names they may use. Many banks also use the word profit!

Unless an SME finance institution commits itself to Shari'ah and has in place Shari'ah procedures for application, its profit is not permissible. In matters of Riba we need to be more careful. Wa Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**From:** Masood

**Sent:** Thursday, February 28, 2019

**Subject:** practices of some Islamic banks

Salam alaikum Dr. Monzer,

This is Masood, writing to you, from Dubai. I am from India, but residing in UAE currently. I am an Engineer by profession, and an active student of Islam, with special affinity to Islamic Jurisprudence.

I have come across your views on many aspects of Islamic financing, and I felt impressed. May Allah give you jaza for your good work.

I would request you to throw some light on following point related to Islamic financing. I am not an expert on Islamic Financing, but Alhumdolillah very well versed with what are different forms of Riba.

I will cite an example of buying a car from an Islamic Bank/Institution. When we see a car purchase through Islamic financing, in principle it is permissible from Islamic point of view. If the value of car is 1000 dollars, and bought through conventional bank finance, they will finance the car value of 1000 dollars and ask the buyer to repay them the amount with certain %age of interest, say 3% for example; hence, the buyer will have to repay 3% more every year, depending upon the agreed repayment period; lengthier the repayment period, higher the repayment. This is Riba, without an element of doubt.

But when it comes to Islamic financing, the bank/institution buys the car from market at 1000 dollars and re-sells it to the buyer at a certain profit, let us say 3%. Now here comes the concern. As per my understanding, this profit should be fixed for the bank; it should not increase with an increased

repayment period; otherwise it becomes Riba, as we learn from many narrations reported in books of ahadith (one of these narrations is on the authority of Usamah bin Zaid, reported in Sunan by An-Nasa'i). Unfortunately, I see most of the Islamic institutions doing so.

Please advise me about your views on this matter.

Regards,

Masood

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Masood

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

If I understand your question right, Islamic bank do not change the sale price in Murabahah. When they sell they negotiate, before contracting, the amount of profit that is added to cost depending on the extent of maturity, so that the price will be higher if payment is over 4 years more than the price of payment is over 3 years. But once the price is set, they sign the contract and the price becomes fixed even if some payment were delayed for any reason. BUT unfortunately, some IBs make an agreement when a customer is delinquent to increase the amount and reschedule through a practice called Tawarruq. This is declared nonpermissible by the OIC Fiqh Academy decision of 2009.

If you have any other question please write me again.

Dr. Monzer Kahf

**From:** Masood

Wa alaikum Salam Warahmatallah Wabarakatuhu,

Thanks a lot for your quick response. From your answer, I understand the following (please correct me if my understanding is wrong):

The Islamic Bank lay down different selling options for the car to the buyer. These options include the conditions that repayment for a period of 1 year will be  $1000 + x$ , repayment over 2 year period will be  $1000 + x + y$ , repayment over 3 years period will be  $1000 + x + y + z$ , and so on. So, when the buyer agrees to one of the options, the contract is finalized. And according to your view this increase in amount with increase in time (of repayment) does not constitute Riba. Right?

Yes, you are right, but this is not my view alone, it is the decision of OIC Fiqh Accademy, the Standard of AAOIFI and the agreed upon view in classical Fiqh. The important point is: during negotiation and offer period, you may give such options but once a contract is concluded, the price become payable as contracts and cannot be changed for any delay in payment. Delinquencies cannot be settled by increasing the price. They are settled by payment or liquidation of collaterals. No change in the price after it is contracted.

On the other hand, some Islamic Banks use the practice of Tawarruq to increase the price; which according to your view is Riba. Right?

If my above understanding is right for your response, I would request you to please throw more light on how some Islamic Banks use Tawarruq, in case of car finance, to go unlawful way?

They put in the agreement a condition as follows: You authorize the bank now that: if you do not pay any installment the bank buys Platinum from London Metal Market, sells it to you on deferred payment (of course for larger amount), sells it back as your agent in the spot market to get the amount that is equal to the amount due on you and uses the proceeds to pay for the delinquent amount/

Also, if my understanding is right for your response, kindly advise what form of finance does first case (increasing price with increase in time) falls under? Does that classify as a classical 'Murabaha' or some other form of trade can also be attributed to it?

**It is Murabahah.**

Jazak Allah.

Your brother,

Masood

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Masood

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh Please see my answers below your questions in red: monzer kahf

**From:** Masood

Wa alaikum Salam Warahmatallah Dr. Monzer,

I thank you again for quick response, and I apologize for asking too many times.

I have seen most of the Islamic banks putting a condition that if the payer fails to pay an installment for certain no. of times, they charge a fine of an pre-determined amount to the total repayment amount and say that this charge shall not be kept by the bank but shall be contributed to charity.

What do you say about this charge?

Regards,

Masood

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Masood

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The fine is permissible, without it everybody will be delinquent, if the creditor eans it it becomes Riba but we give to charity to avoid Riba. The IB is hurt by any delay in paymentbut it cannot earn any additional income, so the fine is used more as a deterrent of customer to avoid delinquency.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**From:** Khadidja

**Date:** February 17, 2019 at 7

**Subject:** Islamic Banking Windows and Project financing

Assalamu Alaikum Dear Prof,

How are you Professor? I pray that both you and Aunty Maysoon are doing well.

I am writing to consult you with regards to two matters.

The first one is regarding Terms of references for opening an Islamic Window within a conventional bank. I have been approached by one the banks here in Cameroon for drafting terms of reference for the Islamic window. I made a draft of it and I attached to the email. I do not know how it is supposed to look like or how the content should be. I would be really grateful if you could bring your inputs in it and guide me in the process.

The second matter is with regards to the mechanism of financing the Construction of a Dam in the Northern Region of Cameroon using Islamic Financing approach. After reading some articles, I have seen several examples similar to this project. It consisted of a Hybrid Sukuk with 2 underlying contracts: Istisnaa and Ijarah contracts. I attached the article for more clarity in the process (I looked at the Tadau Energy case).

My concern is more in the second underlining contract and the true sale of the transaction. The article mentions that Tadau Energy will proceed with both istisnaa and ijaarah mawsufa bizzima at the initial stage. Thus, saying that in the istisnaa agreement, the Tadau Energy will act as the contractor which will build and deliver the assets and when entering the ijarah mawsufa bizzima, it acts as the lessee and the sukuk holders as the lessor. Consequently, at the end of the construction, the assets will be sold back to Tadau Energy.

My question is, does not this condition stipulated at the end make the transaction not a true sale? Is this model the best model for financing the construction of the Dam or there is another way for financing it? I am looking forward to hearing from you. Thank you

Best regards,  
Khadidja

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Khadidja

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Thank you for you kind email, we are fine, Mayssun and I, here in Istanbul. We live within the Campus amenity in the Professors building.

I will answer about Sukuk Now and may be tomorrow about the window because it needs more work.

The Tadau Sukuk are OK and have no problem of fake sale.

The Tadau is the contractor who build through Istisna the solar plant for the Sukuk holders who pay for it and become owner of the plant (there is a point that may not apply there but applies for the Dam in Cameroon: the land on which the dam is going to be built is owned by the government, I suppose, so that there is a need that government issues a document authorizing the sukuk holder to build on its land and recognizes separation of ownership of the land from the dam on it. This we did in road building in Nigeria). Then owners (sukuk holders) lease/sell the plant to a third party. If this third party is the contractor itself, there is a problem of Inah, no doubt.

What we did in Nigeria and you can do in Cameroon is that an agency agreement was given by sukuk holders to government to contract builders of the road so that the seller to sukuk holder is not the government but the real contractors who contracted by the agent of the sukuk holders. Then Sukuk holders lease/sell these roads (dam) to the government which is not the original seller.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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# FATAWA ISLAMIC BANKING 2018

**From:** Khaled

**Sent:** Tuesday, October 16, 2018

**Subject:** Shari'ah Compliant Financing

Assalamu Alaykum Dr. Monzer,

I hope this finds you well and in good health. I was recently asked for my opinion about a financing arrangement from an Islamic perspective, and I wanted to double check with you. I think at least one of the arrangements should be acceptable from a Shari'ah point of view, but I wanted to make sure I double check with you first, as I highly trust and value your opinion, as you are my teacher :).

The company in question is looking to finance its activities through equity, as it's careful not to get into interest based debt (or debt like) transactions. The company wants to issue straight equity, with a few options:

## 1. Early Redemption Penalty: (Early Exit)

The company wants to provide a way by which investors can cash out of their investment in case they change their mind at a later stage, or if they need to liquidate for personal reasons. The company is therefore proposing that they offer to buy back any shares that they sell to the investors with a redemption penalty.

This would work as follows:

- For example, the company could issue \$100k worth of equity
- If the investor wants to cash out in the future (say 1 year later) and can find a buyer to purchase his/her share, then they are free to do so at whatever agreed price between them
- If they would like the company to buy back their shares, the company would do so based on a guaranteed price, but with a redemption penalty (to discourage investors from exiting early)
- The guaranteed price is based on the value of the company at the time of exit

I think the above is OK, but do you think the above is problematic?

It is Ok provided the valuation is done by an external party. This is because there is a condition for buying the share put in advance in the contract. In fact, this an option to sell in it the price can't be the outcome of what one party sets. Otherwise it become cash now for an amount of cash I determine tomorrow. The redemption penalty is here merely a part of tomorrow's price, i.e., the net price is X-y, I determine X and the y is pre-known in the contract.

If the agreement specifies a way of determination of the valuation that is outside the two parties (e.g., an external evaluator), not original investment plus an estimated profit or a profit one party determines (you know that pricing of all assets including inventories and receivables has a host of subjective elements), then it is permissible.

Of course in the contract there must be a clear clause of profit distribution/retaining in a fair way as an option for the investor who decides to stay on.

## 2. Liquidation Preference: (Valuation Amount)

The company wants to provide a way to guarantee the valuation amount at which investors deploy their capital initially.

This would work as follows:

- The company would issue shares at a specific valuation, based on their predetermined methodology (e.g. 2 x annual sales)

- For example, it could issue shares based on a \$2 million assumed valuation (e.g. 2 x \$1 million of sales)
- Any future investor who wants to purchase shares, will be buying them at an assumed total valuation of \$2 million for the existing shares of the company
- Now assuming the investor wants to liquidate early, the company is guaranteeing the valuation amount initially agreed on
- This can be accomplished by the company agreeing (on day 1) to buy back any shares it issues at (at least) the same valuation formula, of 2 x annual sales
- If however, (at the time the investor wants to liquidate) the multiple of the business (based on market forces) was actually 1.5 x annual sales (not 2 x as the company initially thought), then the company will guarantee that it will buy back at the 2x level
- So if in 1 year after the original investor came in, he/she would like to liquidate, the company agrees (on day 1) to buy back their shares at 2 x the annual sales of year 1
- Let's say the sales at that point in time is \$1.1 million, but the multiple dropped to 1.5 x then the company will buy back the investor's shares at an assumed total valuation of the of \$2 million and not 1.5 x \$1.1 million (or \$1.65 million)
- So in spite of the sales number increasing from \$1 million to \$1.1 million, the original investor is protected from a drop in the multiple (based on market forces) from 2 down to 1.5 times
- Also, please note that the original investor is free to sell her/his shares to anyone (other than the company) at any time and at any mutually agreed price

I'm a bit worried about this arrangement. Would this be acceptable?

I do not think that such a guarantee can be permissible, what justifies going away from the market valuation. Again it seems that such valuation on basis of a multiple of sale is not a fair one for either in or out. There are several factors affecting the success of a business and consequently all such factors affect its valuation. Being realistic to the ground is important in interpersonal exchange contracts/ conditions.

### 3. Fixing The Valuation Criteria Method: (Valuation Criteria)

The company wants to provide a way to guarantee the valuation criteria at which investors provide their capital initially.

This would work as follows:

- The company would issue shares at a specific valuation, based on a multiplex a revenue metric, for example, it could be based on 2 x annual sales, so if the company sells \$1 million worth of products, then the company is worth 2 x \$1 million, or \$2 million
- Any future investor who wants to purchase shares, will be buying them at an assumed total valuation of \$2 million for the existing shares of the company
- Now assuming the investor wants to liquidate early, the company is guaranteeing the valuation criteria (but not the future buy back price)
- This can be accomplished by the company agreeing (on day 1) to buy back any shares it issues at the same valuation formula, of 2 x annual sales (at the time the investor wants to liquidate)
- So if in 3 years, the original investor would like to liquidate, the company agrees (on day 1) to buy back their shares at 2 x the annual sales of year 3
- Let's say the sales at that point in time is \$3 million, then the company will buy back the investor's shares at an assumed total valuation of the company of 2 x \$3 million, or an overall \$6 million valuation

- Standardizing the valuation criteria in this way is to avoid disputes and arguments with investors in the future, in case those investors would like to cash out early
- Also, please note that the annual sale figure in the future could go lower than the initial \$1 million, so the investor could potentially lose a portion or all their investment (for example if the annual sales of year 3 drops to \$0.5 million from the original \$1 million)
- The original investor is free to sell her/his shares to anyone (other than the company) at any time and at any mutually agreed price

I'm not sure about this. Is this OK?

**My answer here is the same as in the second scenario. I think that there is too much Gharar in such a condition and we must be realistic at each moment, market conditions are never fixed.**

Jazakum Allah khair on your input on all three items above.

I'm happy to call you if it would be easier to have a discussion over the phone, if this will save you typing a long answer.

Sincerely,  
Khaled

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. KHALED

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Sorry for the delay, I got busy with other things and diverted from answering some of my dearest brothers... Please see my answers below each question:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

monzer@Kahf.com www.Kahf.net; www.Kahf.com/blog

**From:** Khaled

Assalamu Alaykum Dr. Monzer,

Thank you kindly for the reply, which is very helpful.

Regarding the second point, the multiple method is typically used in industry to price certain assets. For example, if a dentist wants to purchase a dental practice, the convention is to determine an average sales number for the practice, and apply a multiple to determine how much he would like to pay for the practice. Of course, the seller is not bound to sell at the multiple that is being applied/assumed by the buyer. This is up to market forces, i.e. what multiple the buyer is willing to buy at vs. what multiple the seller is willing to sell at. What can't be disagreed upon is the sales figure, as that is based on the financial statements of the dental practice.

Given the above, could we consider this a form of acceptable valuation, if all buyers/sellers are free to assume whatever multiple/price they are willing to buy/pay? Does this change your opinion on question 2 or 3?

I'm happy to discuss this with you over the phone briefly if you'd like.

Jazakum Allah khair,  
Khaled

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Khaled

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This multiple is a general norm not a binding number. This means that people when they make their actual purchase negotiate around this normative number. This creates substantial Gharar, especially that business is not like watermelon, all alike. Rather each business has its own peculiarity and personality and circumstances. All that requires aware acceptance at the time of sale.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

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**From:** Adil

**Sent:** Saturday, September 29, 2018

**Subject:** questions on Islamic banking

Dr. Monzer,

Thank you very much for your email, and your generosity to answer my questions with your busy schedule. I am depending on secondary data as my main sources of data collection to make the analysis. It will be taken from the balance sheets and the income statements of the selected Islamic and commercial banks. One of my selected variable is securities, which banks use to absorb risks. In commercial banks it is clearly identified in the income statement, however, in some of the Islamic banks it is not identified in the income statements as it in their counterparts. My question is how do Islamic banks adsorb their risks? or what can be consider as securities account in Islamic banks?

I have never heard that banks use securities to absorb risk? Do they? Banks use guarantees and other off balance sheet practices, they also diversify and avoid concentration of all its kinds and prepare adequate liquidity. They place part of available liquidity in highly rated bonds in order to gain some return, although low.

Islamic bank does exactly the same and place part of their available liquidity in Sukuk. Sukuk nowadays have become available in almost all countries that have Islamic banks

Also, I found loans and advances in some of Islamic banks' financial statements. Islamic banks known for their PLS practices, how do loans and advances treated in Islamic banks?

The highlighted statement is incorrect. It also means that you did not look carefully at any balance sheet of any Islamic bank.

This statement is in fact from your other theoretical incorrect writings not at all from balance sheets of IBs. IBs accept deposits of two kinds, demand deposits and this appears in the balance sheet as depositors, who are not assigned any profit because they are considered loans to the Ibs, and investment

deposits based on Mudarabah contract and these appear in the balance sheets as special kind of equity, equities of investment account depositors, they share in the profits and theoretically losses (but practically Ibs management make all processes to avoid distributing loss to them when it happens and absorb losses into other pockets of shareholders. This except when an IB declares bankruptcy).

On the other hand, IBs do not give loans except in very few rare cases, and such loans would be with no return to the IB. it does not gain from them. The main way they gain return from is Murabahah followed by Ijarah that ends with ownership. Murabahah creates debts (receivables) and Ijarah creates debts for the rental and leased assets (committed off balance sheet by undertakings to buy). These two balance sheet entries are very visible in any Islamic bank, the total of them is the IB equivalent of loans in conventional banks.

Commercial banking system is a loans base, and Islamic banking system is investments base. Total loans are one of my variables in on the commercial banks side, total Investments is on the Islamic side. There are several investments accounts in Islamic banks' balance sheets. What account in Islamic banks statements can be taken or consider as an equivalent to total loans in commercial banks.

This statement is general and thereby vague. Conventional banks very often call their lending investment and wall Street Journal call it investment too. Investment may also mean equity (shares) and buying bonds although the latter is pure lending.

You should use specific terms such as loans, receivables (from Murabahah sales or from Ijarah contracts). Many Islamic banks call these two processes investment too.

First, avoid general terms, and second IBs that follow the AAOIFI accounting standards, show in their balance sheets the balances of debts and assets committed to undertakings in clear separate items in their balance sheets.

The total of such items make the comparable magnitude with loans in conventional banks.

Thank you very much for your help and support.

Best Regards,  
Jazak Allah Kiaran,  
Adel

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Adil

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below the questions in red:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

**From:** Adil

Dear Dr. Monzer,

Wa Alaykum Aslam wa Rahmatu Allahi wa Barakatuh

Thank you very much for your detailed explanations and thoughtful comments. I really appreciate that. In my second question, I was not referring to fully fledged Islamic banks. I was referring to some banks

that carried Islamic banks' names but not fully fledged. In other word these type of banks uses both Loans and receivables and Islamic Financial Instruments (Murabahah, Ijarah...etc.). Can these type of banks be considered as Islamic banks? Is there any source of data for fully fledged Islamic banks available anywhere?

Jazak Allahu Kiearn

Adil

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Adil

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Conventional banks offer sometimes two kind of Islamic finance services: 1) some banks have full branches or widows which accept investment (Mudarabah) deposits and offer finance in accordance with Shari'ah. These have normally firewall in their accounts and you should only look at the balance sheet and other closing statements of the branch or window or division alone, the rest is conventional. You cannot look at the consolidated closing accounts, and 2) conventional banks that, from their available resource off Islamic financing contracts to customers, they do not accept Mudarabah deposit and they do not have separate accounting set of books for the Islamic activities so that they cannot distribute Halal profit to depositors. You cannot consider their activities Shari'ah compliant in their totality because of this mix. They are treated just as conventional.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

[monzer@Kahf.com](mailto:monzer@Kahf.com); [www.Kahf.net](http://www.Kahf.net); [www.Kahf.com/blog](http://www.Kahf.com/blog)

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# FATAWA ISLAMIC BANKING 2017

**From:** Tarek

**Sent:** Thursday, December 21, 2017

**Subject:** Capitalism is losing support: Time for a new deal?

**Question:**

AA

Hope all is well

(An article from the World Economic Forum & a brief personal comment)

The financial crisis has led many to question the legitimacy of capitalism. The verdict, 10 years on, has not been favorable.

In an opinion [poll by YouGov](#), *three-quarters of German adults, two-thirds of Britons and over half of Americans believe that, "the poor get poorer and the rich get richer in capitalist economies"*.

Their sense of injustice is not only a reaction to bank bailouts, years of austerity and corporate scandals.

The challenge is fundamental.

There is a growing awareness in the rich world that most of the benefits of technology and globalization flow to people who own investible capital and to the well-educated, while the costs are borne by unskilled workers, local producers and people who have little property and savings...

<https://www.weforum.org/agenda/2017/11/capitalism-losing-support-we-need-a-new-deal/>

An Easy Solution for the Problems of Capitalism:

The main problem of capitalism today (imo) is its financial and banking system which is based on interest/riba/usury

If the world changes from a banking system based on interest to a system based on risk sharing between owners of capital and entrepreneurs, capitalism will recover.

Do you agree?

**Answer:**

I don't agree because society cannot live on risk sharing. Any economy must have debt and sharing together. Crises are more caused by sale of debts than by lack of risk sharing. The alternative to interest rate banking is not risk sharing but a system based on realism where we do not sell debts because debts do not generate utility/value, they do not create value, and where we realize that if you want to earn in finance you have to own an asset that can create added wealth which means that you cannot earn by trading virtual assets, etc.

The issue is realism not risk sharing..... please look at my writings

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** Tarek

**Sent:** Thursday, December 21, 2017

**Subject:** Re: Capitalism is losing support: Time for a new deal?

**Question:**

Assalamo Alaikom Dr. Monzer

Thank you for the feedback and I will surely read more of your writings insha Allah.

I totally agree that the sale of debts should not be part of the solution.

But if we do have risk sharing (like musharakah and mudarabah) together with debt based finance, would these debt finance tool not be interest-based?

If so we are back to square one.

The current banking system is unfair and biased in favor of the rich as it helps them becomes richer and the poor become poorer, while at the same time creating a bubble in the system as the volume of money in the system exceeds the true value of the real economy which eventually leads to a crash or a serious collapse.

So my question is don't we need to eliminate debt-based finance all together?

JAK

**Answer:**

So what you need is to accept debt creating through sale and lease and reject debt based which can only be through interest. You do not need risk sharing in the banking system as it already exists in the capital market! (Why duplicating the capital market in commercial banks?)

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** Saher

**Sent:** Monday, October 23, 2017

**Subject:** Questions- inheritance and interest

**Question:**

Assalaam Alain kum wa rahmatullahi wa barakatahu wa barakatahu.

Dear brother,

Hope you are doing well. I had a few questions that I didn't find on your website in fatwa bank or topics. Youth are asking this but they are motivated to write to you, and I am not sure about the answers

1. Why would Islamic bank give loan to a persons need not business or investment? For example, if a man wants to take a loan to treat his wife. He doesn't have any other means. Why would an Islamic bank give loan? I heard banks keep some amount for community service. But how would they make money from it? What about student loan in Malaysian banks? How would banks make money without interest?

Islamic banks do not give loans, they give goods and services instead. A person who comes to bank to buy a car would ask the bank to buy for cash the car that he selected and then sell it to the customer on installments. The installment price is higher than the buy price and the difference will be the profit of the Islamic bank. Similar thing will be for services such as an air

ticket or a medical operation in a hospital (the bank buys the service and resells it to the wife of that person in your example.)

Student loans to pay for the university tuitions can be done same way because tuitions are the price of the teaching services (credit hours).

## 2. Inheritance

a) A family has 3 children. Boy, girl, boy. If the oldest boy becomes mutated, leaving Islam or does all haram like drinking, drugs, zina etc. May even gamble (He doesn't consider poker to be gambling).

Can the parents write the will to give all money between the daughter and youngest son without disowning the oldest son? Should the parents disown the son for being on the path of atheism?

Can the parents award bigger portion to youngest son if he is going to become hafiz?

Jazakallah khair for all your help

If that son become really atheist or unbeliever, they can write a will to prevent him from inheriting anything. But if he is simply making many sins without disavowing the Islamic religion, let us hope that he will repent sometime in the future, they must not deprive him.

### **Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Saher

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers above in red:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Professor Dr. Monzer Kahf

Islamic Finance & Economics

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**From:** Ahsan

**Sent:** Monday, January 23, 2017

**Subject:** Islamic Economics - PhD

Dear Prof. Dr. Monzer Kahf

Respected Sir,

Assalam o Alaykum

I feel privileged to be one of attendees of your precious talk on Islamic Economic System at ILKE conference in Istanbul, Turkey. Fully cognizant of your busy schedule and voluminous responsibilities I reckon it important to request some of your time to guide me in some matters of grave concern.

Being one of pioneers of great work in fields of Islamic Economics and finance as well as being termed as "neo-revivalist" besides respected Nejatullah Siddiqui, Khursheed Ahmed and Umar Chapra by experts like M. Akram Khan and Dr. Abdul Azim Islahi, you must be well aware of the unfortunate fact that past 40 years of work on Islamic economics is rife with controversies

between advocates of Islamic economic system from its meaning to ways of achieving it. Whilst some are frustrated by the gap between theory and practice others regard it a futile activity to dig deep into empirics and mathematical formulation and call for micro models of Muslim idealistic and not mere human behavior (e.g. Zaman 2015). Yet there are others who call for A-theoretical ideas of gold dinar and silver dirham with little economic underpinning.

Without undue extension of various existing strands on the topic I would take the opportunity to quote your own words; "it seems to me that the present generation of Islamic economists is exhausted and already consumed in the activities of Islamic banking and finance that what it can do now is to hand over the torch to a second generation that may carry deeper theoretical analysis and fill the gaps left by our generation."

Importantly, this short context is not to criticize the existing endeavors but a short expression of dissatisfaction and frustration faced by young learner keen to contribute to Islamic Economics amongst multifarious thoughts, intense controversies, thin opportunities and hardly any traces of financial support for projects exclusively intended at research into Islamic Economics (besides financialization).

I am Ahsan, an alumnus from University of Leeds (UK), University of Hertfordshire (UK) and a PhD (Economics) scholar enrolled at Marmara University, Turkey. I would request your kind consideration regarding following questions:

i. For the researchers novice in this field, are there any implications for following a particular strand i.e. Spiritual Economics of Zaman, Tawhidi economics of Masudul Alam Choudhary? Would choosing an inappropriate strand lead to our efforts ending in smoke?

I believe a much ascertained YES. This is because some of these strands are themselves baseless in our religion and some are futile. The spiritual brand is irrelevant to our religion. When it comes to economic endeavors our religion is extremely based on self-interest, although is redefined to include the hereafter interests too. But people have different and variant levels of presence (in their inners) of the full results of their actions. Therefore the minimum requirements are defined in Shari'ah, once these are observed a society of success (falah) is achieved. What comes beyond/above that is further improvements most of them are non-measurable and should be left to spiritual improvement and training not to economists although some of their results are measurable (e.g. look how much Awqaf our forefathers left). As for other strands like Shuratic and Tawhidiatic epistemology I feel it is futile and undefinable because you can put under it anything you like to define and call it Islam..

I strongly argue that Islamic economic and finance should be studied as a further step of understanding human being, regardless of religion and other discriminatory descriptions, which carries our economic analysis higher than the capitalistic (and its related strands) contributions. Ours offer deeper understanding of man; an understanding that is guided by revelation given by God through His messengers throughout the human history, of course the last of them is Muhammad, pbuthem all, with the Qur'an. Ours is part of the economic discipline with a more comprehensive and realistic paradigm.

ii. As outlined by you in defining uniqueness of Islamic economics system; while the general objectives and the tools of analysis of Islamic economics are same in economics itself, the means this system uses to reach common goals are not exactly the same as in other system, the

utilitarian or communist. How can one decide the extent of utilitarian thought and Islamic theory to incorporate in different micro and macro models?

A comprehensive and integrated look at human being gives better understanding by including his/her goals and incentives and by defining the extent of morality that must always be carried along with self-interest transactions. I believe our definition of morality is much more definite and exact than contemporary moralists, both idealistic and materialistic. Ours is based to large extent on human science and rationale while its fundamental brand is guided by revelation. Take the example of good and bad, the criterion is given in the Qur'an, the application is pure scientific. So we do not go with the emotionalist who are excessively environmentalist and we do not go with "self-interest makes everything". Only when science becomes definite (e.g., tobacco) we make it part of religion, but when it is not sure yet (genetic modification) we remain neutral.

Take also the market, we believe in its virtues and morality, although driven by self-interests, but we also define the moral standards of its transactions.

iii. In conventional educational institutions, there is thin possibility of research into core topics of Islamic economics both due to lack of interest and dearth of appropriate faculty. Could you please recommend some doable topics in conventional economics which may help us set a future direction towards research in Islamic economics (I.e. empirical criticism on conventional thought; empirically doable topics regarding hegemony of reserve currencies, counterfactual analysis of gold standard to analyze the ills of fiat money, interest as source of inequalities etc.)

I do not see the issues, of money, reserve requirements, gold and its standard and fiat money as good potential issues at all.

Rather I suggest: studies in the interest and its effects areas, sustainability of market economy, modes of financing, effects of financialization, environmental protection, urban economies (economies of metropolises), ethics and economic analysis, etc. there is a wide range of Islamic studies that do not carry the word "Islamic" that can be common to all humanity without being shuratic or tawhidic!

iv. I am towards ending the coursework phase of my PhD program. Are there any scholarships or financial available to transfer and undertake PhD dissertation at your reputed university and master in some core field of Islamic Economics.

We do not have yet a Ph. D. program.

I hope for your kind consideration. Grateful in advance.

Ahsan

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Ahsan

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below the questions:

Best Regards

Dr. Monzer Kahf

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**From:** Lahsen



لسال مع عليكم ورحمة الله وبركاته  
أرجو أن تنظر في الأفضل عند الأسئلة  
مع أسئلة في وأعمال حجة  
أ. د. فهد حفي

From: Omar

ببارك الله فيكم

أرجو أن تقيس عرضي حتى يتأكد من فهم الموضوع  
من فقه طائفة من حرم أخيراً أن يلبس قميصاً لأول إنذاره من أن يلبس قميصاً من فقه طائفة من حرم ذلك  
يضيء في الدرع مع الثميري أو أن يلبس قميصاً من فقه طائفة من حرم ذلك من فقه طائفة من حرم ذلك  
الغرامات التي قد تضرر بها من خسارة الصلوات التي هي عدم استئذان القس طابعت أخيراً في ضريبة أو غير ذلك في هذه  
العمل هي طرفي بحال ضريبة في الفتن التي تأخر في هذا الموضوع.

- 1) أنت بجلالك وقد حصل لك في الدرع أما أنت ترحب من خطأ الآخر وهلت أخيراً بربرك،
  - 2) (الغرامات) هل ان الودع والتجزيض في الردع عيني أي أنك لو كبره والتجزيض موقوف قدره لوليس أكثر فيه. فمذا فعمل  
بيلزيدي من الغرامة عن التجزيض؟ لا يرد لفعله لأن مبدل الفقيه قدال قصده، إذني عطول في قراءه في ذلك شأن أي مالف في  
هيك مولي سلوك ولكن ليس له من حيث حق طيضا،
  - 3) في الضريبة طيضا لأن أخذ عن التآخر أي زيادة فتن رضي، لفي ضريبة ولا في مريحة ولا في إجارة، من قال ذلك؟
  - 4) (لا يجوز أبداً أخذ زيادة مقبل على متوق عقدي حصل قد لا يجرى عنى له ولكل من عدن القود لانتهم من انك ان  
على ذلك نحل على يد أمثلها.. مذفرضي قوليس تخرقة. لأن هي لكن أن لا يستطيع استئتماره أو أن لا تدر ذلك على. هذا من  
فتن في مبدأ الخيرية REALISM إلى القصد اسال مي عوم وفي التمهيل خصوصاً.
- فانك أحوال قدن أخفيها زيادة مقبل على يد تخرق في حق لم يسبب للأخري، نحلها في عقيدتك صناع مع صلا عينيته ميالت أحر  
الفتن هي بلكم لفي مع لزون، ولزون محدد وعقد الإجارة مع موقع في الصفة والأجر في عروفه. إذلت آخر للصراع أخذنا  
من الغرام قب قدار مفسقاً من الأجرة لألت آخر على لزون تسلمي الم دفع في فع وجوب الأجرة عه.

ببارك الله فيكم

لسال مع عليكم

My Answer:

أرجو أن تنظر في الأجوبة عند الأسئلة في الأفضل

Best Regards

Dr. Monzer Kahf

From: Esam

Sent: Wednesday, August 10, 2016

Subject: Opening Bank Account

I'm obliged to open a bank account so that the company where I work can transfer my salary to it. Also, my pension from earlier official work, from which I had retired, is transferred to this account. Really I'm not comfortable with this. Could you kindly enlighten me if it is OK according to Islam's rulings?

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br.

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Opening a checking account that does not generate interest is permissible because you do not earn or give any interest. It has become a necessity in our times as you notice in your case. We all deal with conventional banks and we make our best to avoid interest.

However, if there is an Islamic bank in your area, it is much better to deal with it because even when you have only a checking account the bank may use your money anyway.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Faduma

**Sent:** Wednesday, August 03, 2016

**Subject: Banks offering Islamic finance for house purchase in Canada**

Assaalaamu Alaykum Dr. Kahf,

My parents just recently attended one of your lectures at the Muslim Mosque in..... regarding purchasing homes in a halal way which you advised were common among the Guyanese community (from their understanding). My husband is Guyanese and he is not aware of any banks in the Toronto/Malton area that allow us Muslims to obtain mortgage the halal way. Would you be so kind as to let me know if you are aware of any banks in Toronto/Malton or even in Mississauga that cater to ways of Islam. I would love for my parents to purchase a home near my area and be closer to me.

I hope to hear from you soon.

Assalamu Alaykum,

Faduma

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Faduma

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

What I argued is that Muslims must negotiate with local banks and credit unions to offer Islamic house financing schemes. I do not know of any existing now in this area. I know that The Credit Union Assiniboine offers the same in Manitoba, so why not in Ontario?

However, the Islamic housing cooperative in Ontario offers Islamic finance and you may approach it.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Cyrine

**Sent:** Sunday, June 26, 2016

**Subject: Are banks themselves Haram?**

Dear Dr. Kahf,

I'm really honored to be answered by a great scholar like you. And I would be more honored if you answer to this question too.

Many says that the bank, itself, as an entity, is Haram, and shouldn't exist, and they argue by explaining that if it is really based on sale, then it should be called commerce, not bank (which is "a for-profit entity" and was made on illicit bases). What do you think about that?

Again, thanks a lot for your time.

Yours respectfully,

Cyrine

**My Answer:**

I think this is plain rubbish that needs no answer.

These people do not know finance and do not live in our age. Financial intermediation is a new economic function that cannot be undertaken by merchants who deal with commercial intermediation. FI is a necessary function in any economy that surpasses the small village community in which people know each other. It is a function that can be set in accordance with Shari'ah.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**From:** Cyrene

**Sent:** Saturday, June 11, 2016

**Subject:** interview on Islamic finance

Dear Prof. Monzer

First of all, I wish you Ramadan Mubarak for you and your family.

I'm writing to you, Mr. Monzer, because I need you to answer to this interview, as part of my preparation of my Master degree.

I come to you on behalf of my friend Skander Chrigui. He gave me your e-mail, and told me that you would surely help by answering to my interview.

I thank you in advance for your time, and consideration.

I look forward to your reply.

Yours sincerely,

Cirine

**My Answer:**

You're welcome,

Here are the questions and my answers:

We are going to clarify few points about Islamic Finance:

According to you:

- What makes the difference between sales and Riba?

**Real presence of commodity and limiting finance to a max,**

- It is claimed that the Islamic banking is respecting the Islamic law, except that the ethical products like those based on profit and loss sharing or charity are non-existent in Islamic banks.

What is the reason that lies behind that?

This except is a wrong concept (it means the question is not accurate) because compliance does not mean doing everything in the book. It rather means doing within its boundary. The reason is risk management and protecting rights of depositors and shareholders.

- What is the nature of the Islamic banks? Are these just classical banks; purely made to make more profit and to avoid risks.

Except for a few that are specialized as investment banks, many commercial IBs make profit and avoid risks. Also Investment IBs do the same but at a different business model.

- What is the level of credibility of Islamic Finance scholars?

High, except for the low credible Fatwa on Tawarruq.

- Some argue that the Scholars' decisions about the "Inflated fees" are now introducing a so-called "Fatwa Shopping" ideology, are these fees really considered to be exaggerated?

Which inflated fees are these?

Fatwa fees paid to scholars or transaction fees charged to customers. The latter are within the limit posed by Central Banks and some of the former are high especially when the cake is big and the fatwa is Tawarruq related.

- What do you think about the Islamic windows?

They are OK, a good tool to increase competition and improve efficiency.

- How do you explain that a system rejecting usury (Islamic system) is integrated into the national conventional system?

This is the nature of this religion (in contrast to ISIS mentality): peaceful co-existence and tolerance of the 'different' or the "other."

- What do you think about Islamic insurance "Takaful"? Is it only a change of title compared to a conventional insurance?

No. It is rather a change of terms of reference and accounting system. Although Takaful-operator system hijacked the idea of cooperative Takaful, the Problem Takaful solves is prohibition of trading or sale of risks.

- What are the Islamic products that really respect the Islamic Law?

Murabahah, Ijarah ending with ownership, Istisna'/counter Istisna', Salam/counter Salam, Mudarabah (for resource mobilization) and Ijarah Sukuk.

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**From:** Umaima

**Sent:** Sunday, April 03, 2016

**Subject:** Current account in IBs

Respected Dr. Monzer,

Assalam Alaykum. This is your student Umaima from QFIS. I am sorry to bother you with my questions but I really need your assistance for my queries:

1- The current accounts in Islamic banks are based on loan (Qard) contracts [Kahf, 2014, p.171] or on the basis of al-Wadi'ah yad dhamanah deposit [Rosly, 2005, p.151], and if there is any difference between the two?

Yes, there is a difference. Wadi'ah yad dhamanah means that this is a deposit in Shari'ah sense but the depositor betrayed the trust. Therefore the profit belongs to depositor and accordingly the IB pays return (interest) on current accounts in spite of the presence of Dhaman which is a characteristic of lending. Loan is clear that it has the Dhaman of the borrower but any increment is interest (Riba). to my knowledge that new regulation of Bank Negara eliminated all

that and determined that current accounts deposit are only loans, this need to be verified. In other words WYD is another way to combine the Daman and the return on the deposit. Which is a gross violation of the established principle that al Kharaj bi al Daman, which means if you want return you have to own and bear ownership risk (Dhaman= liability to whatever may happen to your property=property or ownership risk).

2- What is your opinion on the gift (Hiba) that is given on the current accounts in the Malaysian banks?

It is Riba anywhere introduced. Changing name does not change reality. Saudi Arabia's SAMA did that when it used 'Umulah in place of Fa'idah.

3- Are preference shares prohibited in all cases, or are they acceptable as long as the dividends are not cumulative? (I remember reading this on a document of a Malaysian bank which I am unable to access at the moment).

The OIC Fiqh Academy placed an end to this issue: any financial preference is not permissible (2 reasons: 1) guaranteed dividend means interest, 2) treating the equal unequally). But any managerial preference is permissible provided it is fair. I add for managerial preferences (in voting) and non-monopolistic.

Many thanks and regards,

Umaima

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Umaima

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please see my answers below the questions:

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Valdez

Sent: Monday, January 18, 2016

Location: UK

**Question: Islamic banking UK**

Assalam Alaykum, I wanted to ask you if you know the Islamic bank "Al Rayan bank". Regards to opening a savings account (isa), they claim it to be a profit instead of interest as they claim to invest your money on halal activities (avoiding alcohol, tobacco, gambling etc.). I was wondering if it is actually halal to open and I am interested in the 24month/deposit,

More info can be found in this link: <http://www.alrayanbank.co.uk/savings/fixed-term-deposits/24-month-fixed-term-deposit/>

I will appreciate a response in this matter thank you Jazaka Allahu Khayran

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Valdez

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Yes, Masrif (bank) al Rayan of UK is an Islamic bank and has a Shari'ah board, I may disagree with some of their Fatwa even with that It remains an Islamic bank and you may deposit with it and earn Halal income InShaAllah.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Valdez

Sent: Monday, January 18, 2016

Location: UK

**Question: Islamic banking UK**

Assalamu Alaykum Dr Kahf I wrote to you a while back in regards to the AL Rayan bank in the UK which you stated to be halal Islamic banking my question to you now is can you provide evidences Islamic wise from texts to support the fact that this bank is halal I'm asking you this so that way I can show this evidence to other members in my community to support the fact that the bank in UK is halal

Your time and assistance in this matter is greatly appreciated Jazaka Allahu Khayran

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Mr. Valdez

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

There is no text anywhere in the world that states that Bank al Rayan is Halal. Your community (or maybe you) seems to be asking for the unattainable!

The website of this bank says it clearly and the mother bank website says it also clearly and it is a public info that Bank al Rayan of Qatar and all its subsidiaries commit themselves to Shari'ah and have Shari'ah board to advise them of related matters.

As I told you earlier I cannot face a person, legal or natural, who says I am a Muslim and tells him No you are not.

On the other hand, I also told you that we do not agree on all the Fatawa and practices that an Islamic bank does but we know that it does that on the basis of the opinion of its own Fatwa giving Board of Shari'ah experts.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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# FATAWA ISLAMIC BANKING 2015

From: Abdul Awwal

Sent: Friday, February 27, 2015

**Question: Development of Islamic Monetary Policy Instruments**

Respected Brother Dr. Monzer Kahf

Assalam Alaykum. Hope that you are well InShaAllah and still contributing in the field of Islamic economics, finance and banking. You may remember me, I am in the Central Bank of Bangladesh, currently head of the Research Department. As you are aware Islamic banking sector in Bangladesh is growing fast and 8 Islamic banks have already been managing one-third of the assets and experiencing huge excess liquidity due to non-availability of Islamic monetary policy instruments.

Central Bank of Bangladesh has sent me to IRTI to review the present Islamic monetary instruments introduced by the OIC central banks and select 2/3 instruments suitable for Bangladesh. (Now I am in IRTI). In this regard, I need your kind cooperation. You have many important contributions, would you please suggest me which instrument will be practical and Shari'ah compliant to mop up and inject liquidity from/to the Islamic banks by central bank.

Hope to receive your suggestions soon.

With best regards,

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in

Dear Br.

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Please see the attachment also consult my eBook on Amazon/kindle,

Then I will be glad to discuss any details and modus operandi with you anywhere and anytime.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Farnaz

Sent: Saturday, July 04, 2015

Location: Australia

**Question: Question regarding Islamic Finance Company in Australia**

Assalam Alaykum wa Rahmatullah wa Barakatuh Dr. Monzer.

I have a question regarding one Islamic finance company in Australia. This company is borrowing money from the conventional bank. However, lending money to their customers for buying house under Islamic contract. So, basically the company is making a Riba based contract with the bank and making an Islamic contract with the home buyer (Ijarah, Musharakah contracts). If I know that this company is doing this, am I allowed to borrow money to buy a house from this company? Jazaka Allah Khairan.

Best regards

Farnaz

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in

Dear Br. Farnaz

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

As a rule, it is permissible to take Islamic finance from this company even if it borrows on interest from conventional banks. It is also permissible to take Islamic finance from conventional banks and some of them offer that.

More important, I doubt that this company borrow on interest. You need to check again it may get special arrangement with a conventional bank to sell it its Ijarah contracts and replenish the funds it gives on Ijarah or Musharakah. This is of course permissible as in Ijarah and Musharakah the company owns its share of the property and has right to sell it to another entity. I think you need to check again.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Joe

Sent: Thursday, December 03, 2015

**Question: Alberta Ethical Credit Union - Shari'ah Restrictions**

Salam Alaykum

I'll start the conversation on the issues you raised by posing some question, and what for our scholars to answer.

1- Restrictions on accepting funds: Since money is fungible, can a bank realistically place a value judgment on any funds that it is not directly involved in earning? It would seem to me at the personal level this is impossible, but on corporate account could be viewed as a form of "assisting each other in sin." What will regulations say about distinguishing between "sin" accounts and others? Will this jeopardize the credit union's status?

2- Restrictions on transactions: Is express knowledge of the transaction constant? Meaning do I have to always monitor each transaction? If I was tasked with carrying a box to a location, with no knowledge of what is in it, would my earnings from this act be permitted? Is cashing a check like this? Or is it more akin to fulfilling a right that the bearer has on the account, regardless of the previous transaction between him and the owner of the account. I lean to the latter.

ws

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in

Dear Br. Sharafe and Br. Joe

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

The evidence for no restriction is the general rights of people to privacy and to no interference from others. This is a general them in Shari'ah. no one is granted authority even to ask questions about personal affairs of others. And whoever asks has no right to answers. Asking a person where do you get your money is itself not permissible because it is none of the questioner's business. I cannot quote any specific Verse of Hadith on it and sorry to say it wrong to ask about a Hadith or a verse for such an essential matter. The Qur'an repeatedly did not allow the Messenger himself to interfere in other person's personal affairs even in matters of faith. This is why I say it is only for Barakah that in the founding stage we avoid persons who are known obviously to have their only source of wealth is from Haram. But even that it is not a Shari'ah specific requirement as I explained it to you Br. Sharafe in answering a previous questions a few months ago. The only incidence I can remember is that before Islam when the Kuffar of Makkah wanted to rebuild al Ka'bah they avoided accepting any funding from Riba and its likes. Going around people asking them: where did you get your money is not only non-permissible it is also unthinkable. This is why we limit ourselves to what the law requires (although most questions required by the laws of anti-laundering and anti-terrorism are themselves silly and have loopholes!).

I agree with brother Joe on his statement except the example of carrying a box. When I do a thing I must know exactly that it is Shari'ah compliant. I cannot carry a box not knowing what is in it. This is not permissible in Shari'ah and in all laws too and my lack of knowledge of its content does not give me an excuse at all. Similarly, the CU cannot give finance to any non-permissible activities, as you used the term we cannot finance sin. But this is different from cashing a check. When we cash a check it is none of our business to check the transaction for which it is written and Shari'ah and the law both do not give us right to ask that question. I like to add here if the check is written on finance provided from the CU (as in Istisna' or in Murabahah line of credit) we then are required by the dynamics (nature) of the transaction to verify every payment of that finance because Islamic finance is always founded on ownership which means that the CU is a part of the transaction, (owning then transferring ownership to customer/member). This is different from a check written on the current account where the CU itself is not a part of the transaction.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Sharafe

Sent: Thursday, December 03, 2015

**Question: Alberta Ethical Credit Union - Shari'ah Restrictions**

As-Salamu Alaykum wa Rahmatullah wa Barakatuh,

I pray you are all excellent.

Please forgive the lapse in communication, there has been a lot going on.

\*business plan is still being prepared, there are many details needed

\*lawyer yet to be selected, another law firm interviewed, mixed reviews (the preference is to find a lawyer committed to the cause)

\*presentation is being prepared to recruit founding members (and seed capital) - the intention is to have the membership ready with solid data upon applying to make the approval process smoother rather than obtain approval and go recruit members

\*regulatory bodies have been contacted to aid in development of application

In the meantime, while preparing this presentation and business plan/bylaws:

\*are there any restrictions on whose funds the CU can accept? For example, are we permitted to hold the savings of someone who owns a bar, casino, or liquor store? To what level of rigor are we to ascertain the source of wealth? Are there different approaches for personal accounts vs. corporate ones? Do we put this in the contract for when they sign up that they declare the wealth to be free of money derived from interest, gambling, alcohol, drugs, etc.? Or do we simply state our policies loud and clear and give everyone the benefit of the doubt? Then, in that case, what do we do if something is brought to our attention later, is there any enforcement?

\*similarly, are there any restrictions on what transactions the CU can process? For example, if someone uses a check to buy alcohol, we must then cash that check and transfer the money to the account of the liquor store and have aided in the transaction. Or for debit cards. To what extent are we to require to make sure members will use the CU for Shari'ah-legal purposes?

For example, do we put this in the contract for when they sign up? Then is there any enforcement?

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in

Dear Br. Sharafe

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

I pray to Allah to help you guys sort out all these issues> I know that always establishing new projects has a lot of pain and efforts. May Allah reward you all and for all the excellent work you are doing for our community and its future generations.

For the question. I suggest that we make no reference to any restrictions on source of fund other than what is required by law of money laundering and finding terrorism.

In the founding period, for Barakah and purity, just do not approach people whose only source of income is from liquor, Riba and the like. (Remember this does not include persons who work in financial institutions including banks because the source of their income is labor not Riba, and may of the jobs in such institutions do not include writing a Riba contract.). Later on, just do not ask more questions than the law requires because we do not boycott people on the basis of their income.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Osama

Sent: Wednesday, Dec. 20, 2013

**Question: Islamic banking reserves and money creation**

Assalam Alaykum Dr Kahf,

InShaAllah all is well with you. In the past few weeks I have been working a bit more intensely on my research and I am almost set on the exact direction of my paper along with an outline. In getting my paper set up I came across a recent article on BBC titled How Shari'ah-compliant is Islamic Banking? (<http://news.bbc.co.uk/2/hi/business/8401421.stm>) The article starts off with the following quote:

"The question's pertinence was raised in March last year, when Sheikh Muhammad Taqi Usmani, of the Accounting and Auditing Organization for Islamic Finance Institutions (AAOIFI), a Bahrain-based regulatory institution that sets standards for the global industry, said that 85% of Sukuk, or Islamic bonds, were un-Islamic."

This caught my attention especially as I have been reading different works on different types of financial instruments/contracts found within modern day Islamic banking and the claim that Islamic bankers and economists have tended to modify the conventional, fractional reserve banking model to non-interest operations. I'm assuming that because many Islamic finance institutions are simply trying to "Islamize" conventional, profit based banking, Mufti Usmani believes that 85% of Sukuk (let alone other aspects of Islamic banking) are un-Islamic.

With this in mind, in a hypothetical situation where we have an ideal Islamic state and Islamic economic system would we actually have any of these aspects of Islamic banking we find today, such as Musharakah, Sukuk, etc.?

As well in our ideal system wouldn't it be smarter to have the government set up a central bank that was there primarily to serve the people, unlike private banking (whether Islamic or not) which is driven by profit margins?

Hopefully I made these questions clear enough. If not just ask me to clarify InShaAllah.

Osama

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in

Dear Br. Osama

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

In fact NO, you did not make your questions clear and I did not get your point. But let me settle a few matters:

1. Whatever Osman said is his opinion and it turned, after he and AAOIFI, issued amended standard on Sukuk, that he was talking about a few Sukuk issued on Musharakah with guarantee in Malaysia, very partial point.
2. Most Sukuk are in fact Shari'ah compliant especially those issued on leased assets or usufruct.
3. Islamic banks cannot be described as un-Islamic because they imitate conventional banks, after all this vehicle of banking is a western invention and we take it from the west and adapt it to our Shari'ah, anything wrong in that? Haven't our ancestors done that in the past and

they lived Islamically?

4. Is there anything wrong in pursuing profit? Whether in finance or other trades? Is nationalizing the banking activity better?
5. Do we find anything wrong with partial reserves? Is this principle inappropriate technically or religiously? Does it make banks, Islamic or conventional, reap illegitimate profits? Or rather provide services at lower cost?
6. I don't like to extend my imagination too much, but does an Islamic finance system have to be without Musharakah, Mudarabah or say sale on credit? No I don't think so because these are contracts that proved survival over all centuries from the beginning of humanity and under all systems..
7. Do we need specialized institutions in financial intermediation in the pure Islamic system? I argue, YES. And it is wrong to think that because it is invented in the West and because Shari'ah permits several ways of economic-financial regulations/organization this one is wrong and we should avoid it. I think it is a part of efficiency and equity that are objectives of all systems, Islamic included.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

-----

From: Osama

Walaikum as salaam wa Rahmatullah wa Barakatuh,

Jazaka Allah Khairan for your thorough response. I am sorry if my question was not clear. I was debating a few things over in my mind after having read Dr. M Umer Chapra's article on the authenticity of Islamic Banking. As well, I understand that we are allowed to adopt principles from non-Muslims as is seen in the use of the ditch during the battle of al-khandaq by the Prophet Muhammad alayhi as salaam when Salman al Farisi (ra) recommended it. And if we do not have this example, does it mean that we cannot take anything from others?

At the time I was just wondering if whether or not we would be better off without banks.

As a follow up, I had a few questions on the issue of fractional reserve banking, where banks issue out credit (a check with no value that is not backed by any real asset) to borrowers. Within the framework of an Islamic economy would this be allowed or must any loan that is given out actually be redeemable for the asset that backs the currency?

**This is a complex fallacy! Who said that banks (Islamic and Kufranic) create money in the form of credit without backing. Study the balance sheet of any bank. You will find it balanced, it does not give any credit that is not backed, does it? Besides, is it not more efficient than holding paper currency in a vault or metals in a basement? Further, now everything is electronic. Is the balance sheet well balanced electronically, i.e., suppose there is no paper currency at all. Every bank only gives to finance requesters credit that it stands to fulfill, does it not? Where is the problem that you cried? If reserves are 100% and you record deposits as credit in your balance sheet, can you give any finance as the amount of cash you have should equal the amount in the creditors accounts? WOULD THE BANK BE ONLY A BOOK-KEEPER?**

As well, in terms of backing the currency by the asset many people claim we should return to a gold/silver currency. Islamically, we must have the currency backed by a real asset (not

necessarily gold/silver though) correct? NO, who said so and where does it come from. It is simply a matter of pure civil judgment not a Shari'ah matter at all. In spite of what is written in classical Fiqh that "gold and silver are money by their nature" this is from their mind not from Islam.

This being the case, if the currency is backed by a real asset like gold/silver wouldn't the money supply be finite? How would this be dealt with as the population continues to grow?

**This becomes irrelevant. Think of this: which is better allowing producers of gold and silver to determine the quantity of money in our economy or allowing the government. Also remember that with all corruption and dictatorship in the Muslim lands today, do we argue that we do not want a government in the Islamic system?**

Looking forward to your answers. I cannot emphasize how much help your responses are.

Osama

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in

Dear Br. Osama

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Please see my answers below your questions.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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Walaikum as salaam wa Rahmatullah wa Barakatuh,

I am a bit confused about the answer in regards to banks. I have learned from my research that in terms of the credit creation, banks have the ability to create money out of debt. For example, under the fractional reserve banking system a depositor comes into the bank and deposits \$100. If the government sets the reserve requirement at 10% the bank must take \$10 and put in reserves. The other \$90 it can lend out. But while lending out that \$90 it still guarantees the depositor his \$100. So, despite depositing only \$100, there is now \$190 in the money supply. This extra \$90 was created by lending, and that creation is possible because the money is not backed by any asset. Since the borrower must pay back \$90 plus the interest, he will eventually have to take out more loans since the bank only created the principle (the \$90) but not the interest. Playing out this example on a larger scale, it can have disastrous consequences on a society. Over 90% of money in circulation today is credit created by this process, and it merely exists as numbers on a computer. If all money had to be backed by an asset wouldn't it help solve this problem? Osama

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in

Dear Br. Osama

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Did you see any bank balance sheet? Please look at one and see if you find it not balanced! Where is the creation of money in circulation? It is a matter of mere definition and. We in econ define certain debts as money, don't we? When a bank receives a loan from a depositor (aren't deposits in conventional banks all loans?) you call it money and when you receive a loan from a friend (depositor) you do not call it money, what is the legal difference? This is one, two: suppose the bank is asked to maintain 100% reserve. Does it become only a book keeper or it remains financial intermediary? We can create bookkeepers but these are different animals? Now the main objective of depositing with a bank (an Islamic one at least) is to gain profit (or interest in conventional). If the bank is required to keep all this money I deposit in a vault, 100% how can it create profit and what can it give finance to any one? There will then be no finance at all and then we as people of surplus will have to create certain institutions that are not required to maintain 100% to deposit with and have them provide finance to persons and entities of deficit that need finance. Is that what you call for..? Well we found them they are the banks that live on partial reserves! Three, is there a cost in having big vaults to keep the cash safe and a cost to maintain accounts? The society is then required to bear this cost regardless of whatever methodology we use and whoever is going to bear its burden.

Please don't be fooled by fallacies? Last, if the law and system is giving any person or entity a privilege that is not given to others and because of this privilege this entity is reaping a rent we should tax it. This applies to a bank or any other entity in the economy. If banks, because of this practice are gaining profits that is caused by the privilege of allowing them to receive deposits from the public while other entities are not allowed the same, tax them to create equality and fairness.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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Walaikum as salaam wa Rahmatullah wa Barakatuh,

Before I begin, I just want to say how much I appreciate you taking the time out of your day to answer these questions. It really means so much to have people well versed in the field answering my questions to help me gain a greater insight into Islamic economics. May Allah swt reward you in this life, and the next.

My point is in regards to when you said "If the bank is required to keep all this money I deposit in a vault, 100% how can it create profit and what can it give finance to any one?"

This is where I am confused. Using my earlier example, if I deposit \$100 in the bank and the bank proceeds to lend out \$90 of it to a businessman, the bank will still guarantee me \$100 in my bank and at the same time is guaranteeing the businessman \$90.

Thus the bank is guaranteeing \$190 worth of money despite only \$100 existing.

**This is incorrect because if you look at the balance sheet of the bank you will see that it has cash 100 and receivables 90. So it actually has 190 but part of it is debt on the borrower and the other part is cash. It is irrational to even think that the bank is going to give 190 out of 100 how can this be?!.**

If Islam is built upon Profit Loss Sharing

**This is incorrect Islamic banking is not built on this at all. Islamic finance is built on taking funds**

from people either of sharing (equity) or Mudarabah (profit sharing this is the investment deposits) or loan (current accounts).

On the side of use of fund, Islamic finance when I make a deposit into the hypothetical Islamic bank, knowing this money will be lent out to someone, shouldn't my money not be guaranteed, but rather be dependent upon the success/failure of the bank?

This is true and this applies to investment deposits in Islamic banks. As for deposit in current accounts these are debts on the bank and the bank is free to use them as it wishes to its own benefit. When you ask for them they will pay them back and it is none of your business where do they get that from! Of course if all depositors in investment and in current accounts ask for their deposits at the same time and the bank could not liquidate its assets it will fail to pay and this is called bankruptcy. Its reason is not that it has no assets but that it could not collect them. Otherwise don't you notice that the banks has given financing to its clients and that its balance sheet has equal amounts on both sides that is the total of cash plus debts on others equal the total of deposits, all of them, plus equity, I am simplifying the balance sheet only to understand the point.

If the banks were run Islamically and I allow \$90 to be borrowed from my deposits (in a Profit/Loss sharing arrangement), shouldn't a -\$90 be reflected in my balance sheet until the money is paid back by the business man.

No, accounting wise this is incorrect. The bank should not consider you a creditor but rather a special kind of partner, this is on one hand. On the other hand the bank should consider the user of finance a debtor to the bank because the bank gave him the finance (say Murabahah) and the bank should collect from it not you as that client does not know you. Therefore, accounting records better show your deposit as investment deposit not real liability on the bank and the finance given to a customer as debt to the bank on it, you are simply a dormant partner.

for In real life when I lend my friend Mahmoud a ten dollar bill, I physically hand him a ten dollar bill. There is a chance I never see it again. Yet with western banks, I am always guaranteed the amount I deposit. Why is it different with western banks?

Because banks, Islamic and conventional, are not your friend, as simple as that. The law gives them facility to accept deposits from the public, your friend cannot do that and consider the debts on them in current accounts as a form of money on which usage depositors write checks. You cannot write a check on your friend!

Osama

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in

Dear Br.

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

Please see my answers below your questions.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Dr. Shawkot

Sent: Saturday, June 08, 2013

**Question: Islamic banks use percentages and are more expensive**

Dear Islamic scholar.

I would like to ask you a question, if you can spend some of your valuable time for me please.

Being a Muslim, I would like to go for Islamic Bank of Britain to buy my first house in the UK, knowing that conventional bank is interest based and as such Haram.

When I looked at the IBB's web site, they mentioned, fixed and variable types with certain percentage also mentioned. In addition to this, their total payments are much higher than conventional bank. They have added rent plus other costs, admin charge etc. (Musharakah). Total amount payable is more than conventional bank. Also down payment is 20%, conventional 5% with 80- 20 shared equity, 20% provided by Government will remain interest free for first two years.

I do not have the money to give 20% down payment.

Though I require a house to buy near children's schools, only new houses have more than one toilets. We face trouble every morning specially while I need to go to hospital, and my children (three) and my wife, not working, have to visit only one toilet. We are tolerating this because of our Taqwaa.

IBB did not make it easier for us, rather hard.

When asked, IBB could not explain to me satisfactorily. I am unable to understand the policy of IBB fully, hence I would request you to spend some time for me , how far IBB is following Islamic Shari'ah.

jaka Allah Khair.

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in

Dear Br. Dr. Shawkot

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

I can understand your dilemma! Most Islamic banks are not competitive sufficiently basically because of their inefficiency in doing their job. There are some other elements that make a little cost for them too. In the case you mentioned, please notice that the IBB cannot share with the government this 20% because it is interest-based even with the interest waiver of first 2 years.

I suppose you still can negotiate with IBB or other Islamic banks in Britain for better deals. But if you failed and you cannot afford the 20% and you need the housing as you mentioned, I think the Fatwa of going for interest-based mortgage applies to your case and you may go for conventional, may be later try to change it to Islamic.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Drita

Sent: Saturday, July 06, 2013

**Question: Interview for dissertation on Islamic Banking**

From: Drita

Salamu Alaykum dear honored Dr. Monzer Kahf

I am Drita, Ph.D. student at Institute of Economics, Ss. Cyril and Methodius University, Skopje, Macedonia. I am on the final stage of my PhD dissertation on the topic: "Islamic financial market and institutions - Case study Saudi Arabia".

So while, I have done more research on Islamic finance, I also want to do interview with you as an expert and scholar on Islamic finance. Macedonia is a state where there are not applied Islamic banking (about 25% Muslim population).

I followed your work and I would be most grateful and honored if you answer my questions for my dissertation.

I also have to admit that your scientific work helped me so much and made easy my investigation.

Thank you so much for your time. I appreciate your consideration of my request.

Sincerely

Drita

**My Answer:**

Dear Drita

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

I will be glad to answer your questions and feel happy that you are making this kind of research.

Best Regards,

Wassalam

Prof. Dr. Monzer Kahf

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Honored Dr. Kahf,

First of all, I use the opportunity to thank you for making accessible your scientific work, so that we can take them free. Your scientific work is a reference in my dissertation. I'm glad I did that.

The questions of the interview will be as followed:

1 – Do Islamic banks cooperate with conventional banks? What are the advantages and disadvantages of the cooperation between the conventional banks and Islamic banking modes?

Yes from day one when the first Islamic bank was established in 1974 for IDB and 1975 for DIB. Two main drive are behind this cooperation: 1) there is a need for serving their respective customers better within and without each country, and 2) Islamic banks are the new baby of the banking system which cannot live without such cooperation which takes many forms including placing non-interest deposits, roles of correspondents in international transactions for trade and foreign currency exchange, financing project together in consortiums, coordinating is use of credit cards and ATM cards, etc., it is to the benefit of both because of the nature of banking industry that all its ingredients attest each other's.

2 – What do you think today's perspective of Islamic financial banks will be, and how much Shari'ah financial standard will be acceptable in the future?

Islamic banks offer services to consumers, individuals and corporations, on the basis of sale, lease and sharing. They have moral and realism criteria. This gives them an edge in applying

their finance to most un-vulnerable companies and transactions (they do not finance immoral commodities and they do not finance all non-real transactions such as trading options, futures, indexes and the like. the last crisis proved that because of the above they are more resilient than conventional banks. They have been even inceptions growing at a higher rate than the industry at large and they will continue do that.

3 – How is Islamic finance embedded in the International accepted standards for unification?

What many people do not realize is that Islamic banks use instruments (contracts) known to everybody and embedded in commercial laws of all countries. That is sale on credit, leasing and sharing contracts. their innovation is by taking these well-known contracts and making them the core of financial intermediation instead of the loan contract. this gives them two characteristics: 1) there is no mystery in what they do to the extent that any bank can do it without requiring to any religious qualifications, 2) they appeal to the normal human mind as being moral finance which avoid speculations and speculative relationships. They are accommodated in the international markets and laws which are tuned only to serve the lending contract in finance are been amended in a country after country to enlarge the understanding of finance to include provision of goods and services through credit-based sale, lease and sharing.

4 – How you see Europe in this?

It is definitely coming along for Islamic finance, already more than one European country has amended its laws to accommodate it.

6 - Macedonia as a developing country which first steps should it undertake towards implementing Islamic banking model?

I believe in teaching Islamic finance and accommodating it in tax laws especially. Remember Islamic finance is a set of principles and rules which do not require any religious affiliation. I very often call it non-Islamic in the sense of being a step of growth of the concept of finance and an advancement in banking which belongs to all humanity not to Muslim alone.

Again thank you so much for your time. I appreciate your consideration of my request.

Please don't hesitate to write me.

wesselame

Drita

**My answer:**

Please see my Answers below your question:

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Drita

Alaykum Salam respected professor Kahf

I have to admit that this is very great moral support for me, Thank you very much and Jazaka Allah Khair.

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From: Saeed

Sent: Wednesday, August 21, 2013

## **Question: Conventional vs. Islamic Mortgages in UK - not competitive**

Salaam Dr. Kahf,

I have been going through different discussions (Q&A pdf) around getting first mortgage through conventional banks if the necessity clause triggers. and secondly if there isn't an Islamic product available. But if the available Islamic product is not competitive with the conventional banks then one can go with conventional.

I'm very confused now and would need your advice in my situation. I live in the UK and am renting for last 2.5 years and pay nearly 35% of my monthly pay in rent. I can continue to do so but will not be able to buy a house on cash like this as my pay finishes at end of each month. and if I get a mortgage, I will be giving around same amount of money in it but will own the house then. I have given almost £25000 as rent in last couple of years and its going down the drain!

In terms of options - We have limited Islamic products available in the UK but they are of higher rates and limited availability. So my question is around the competitiveness of Islamic and conv. mortgages.

Here is an example of options available to me.

Conventional (one of the bank)- If I borrow £

200k from bank - 25 years - @2.99 rate = £947 a month and giving back £284.2k over 25 years. so paying back £84.2k on top of borrowed 200k.

Islamic (No 1 bank) - If I borrow £200k from bank - 25 years - @4.49 rate= £1110 a month (£163 more than conventional bank) and giving back £333.15k over 25 years. so paying back £133.15k on top of borrowed 200k.

So basically I will have to pay ~£49,000 more in case of Islamic mortgage which is quite a lot of money and obvious loss.

There are other conventional options available on similar sort of rates and competitive amongst conventional options. but Islamic product is standing far ahead of those.

Is the above scenario of conventional vs. Islamic option competitive in your opinion? Am I fair to say that it's an obvious loss to me in case if Islamic product and I can go with conventional mortgage for my first home?

A lot of people around me are confused between these 2 options and your detailed answer in this regard will help us out of this situation InShaAllah.

Best Regards,

Saeed

### **My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in

Dear Br. Saeed

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

In any competitive market there is always a range of price/rate. Usually one can beat any price by adding more research and more negotiation. I expect that the Islamic finance must be within the market range. If it is within the market range it cannot be described as excessive. In finance market, like most other markets there are some special rates/prices sometimes which are offer by a company of special circumstances, these special prices are normally outside the market

range and should not be considered in any comparison.

If the Islamic finance institution is considerably and persistently outside the market range, I usually describe it as exploitative and aiming at charging its customers for their religiosity. This kind of institution, to me, is equal to non-existing and I would in this case apply the general Fatwa of permissibility of accepting conventional mortgage for the purchase of a house to live in. Similarly if the conditions it imposes, such as payment of a certain percentage that is not affordable as down payment.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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Jazak'Allah for your prompt response Dr. Monzer.

If I can explain the situation in detail please. This will help us a lot in making our decision.

The example of calculation I gave in my initial email (& below) is exactly what is on offer with at least 20% down payment (as this is the minimum what 1 Islamic bank accepts).

HSBC in the UK is giving a life time tracker mortgage with 2.99 as the rate. IBB (Islamic bank of Britain – best Islamic option here ) is giving me the Islamic product @ 4.49. Both have 0.5% of bank of England rate and rest is there part on top of this. Halifax is another bank which is also giving conventional mortgage on even better rate than HSBC (so the example I'm quoting for conventional mortgage is not the best available.. it's the average one – while the Islamic product quoted below is the best available one).

HSBC - Conventional - If I borrow £200k from bank - 25 years - @2.99 rate = £947 a month and giving back £284.2k over 25 years. so paying back £84.2k on top of borrowed 200k.

IBB - Islamic - If I borrow £200k from bank - 25 years - @4.49 rate= £1110 a month (£163 more than conventional bank) and giving back £333.15k over 25 years. so paying back £133.15k on top of borrowed 200k.

So basically I will have to pay ~£49,000 more in case of Islamic mortgage which is quite a lot of money and obvious loss.

Please note that IBB is the only Islamic bank which is giving this rate @ 20% down payment. rest couple of banks are asking for at least 35% as down payment (clearly out of reach of almost 99% of brothers here). link is as under.

<http://www.islamicmortgages.co.uk/index.php?id=168>

<<http://www.islamicmortgages.co.uk/index.php?id=168>>

We use to have HSBC Amanah till last year which had competitive rates of less than 3% (in line with conventional mort) but the minimum down payment was also 35%. Even than few brothers went for this option but unfortunately HSBC scrapped this product last year and are not offering this to any new mortgage applicant.

So as of now - IBB is the best of the lot in Islamic products but are clearly far from the available average conventional options.

I had a discussion with IBB representative in the bank as well around the competitiveness issue. They said that they are new entrants in this mortgage market and its very difficult to compete. Then he said that you know its Islamic and to be frank - you know that we all pay extra bit of money to get the halal chicken. but we do that as its halal and we don't eat haram. So ok we

are expensive but we are halal!..

I know 4 brothers in my close friends circle who have taken conventional products as they are far easy to get and the difference from Islamic product is quite considerable. 4 more of us are currently looking to buy the house and are having this discussion on daily basis since months. All of them have come to conclusion that Islamic banks are just exploiting Muslims situation and are charging very high rates to sell their Halal products. The situation is Unfortunate of course. People here genuinely believe that we are being exploited by Islamic banks which are not at all competitive with conventional mortgages.

What would you say on this exact scenario Dr. Monzer? We have done months of research and negotiations for options available in the UK and come to above numbers/comparisons.

Another thing to add here is that government has started a new scheme for first time buyers. With this option – one will have to pay just 5% of the down payment and govt. will add 15% to it making it 20% for the bank and guaranteed mortgage. This 15% will be given for 4 years I guess and customer will start giving it back to govt. in installments after this period. This has boosted the house market here with asking price up by ~10% after this as more people have started buying. BUT it's not Islamic of course and we are confused again. L

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu 'ala Sayyidina Muhammad, wa 'ala Aalihi wa Sahbihi Ajma'in

Dear Br. Saeed

Assalam Alaykum wa Rahmatu Allah wa Barakatuh

I do not agree with the claims given by some Islamic banks that it is OK to give higher rates than the market. same also applies to Halal chicken!

I believe that some Islamic finance institutions are vicious in their pursuit of profit at the expenses of their captive customers. This is as Haram as Riba if not more and I do not support this behavior.

Wa Allah A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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## FATAWA ISLAMIC BANKING 2012

From: Musa

Sent: Friday, September 21, 2012

**Question: holding the title in car finance**

It is worth noting that the Islamic bank will hold the title to the car and it will not be mine until the loan is fully paid while the car will be mine on the first day when I deal with a conventional bank

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Musa

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

You are wrong on this my dear brother.

First there is no loan in Islamic banks,

Second all finance institutions, Islamic banks, conventional banks and finance companies have the right to protect their investment. If finance is given on lease basis, the title will be in name of lessor. If finance is on loan (CBs) you hold title but there will be a lien on it or on any other valuable property you provide instead. Similarly if finance is given on Murabahah basis because it creates a debt and any debt should be collateralized.

Wa Allahu A'alam2

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Meftah

Sent: Friday, September 21, 2012

Location: Saudi Arabia

**Question: Islamic car finance is more expensive than conventional car loan**

Dear Dr. Kahf,

Assalamu Alaykum. I hope you are doing well. I have a question for you, if you don't mind:

My friend and I were talking about borrowing money from Islamic banks. He told me that the last time he bought a car in Qatar, he went to the bank and asked them about options they have for car financing. The bank told him they have 2 schemes: a traditional car loan and an Islamic car loan and showed him the numbers for both cases, it turned out that borrowing money using the Islamic scheme would have cost my friend 20,000 Riyals more than the traditional scheme. My friend opted for the traditional car loan and told the bank that spending the additional 20,000 Riyals on his family made more sense to him than giving it to the bank. I totally agree with my friend and both of us are left with the dilemma of what is right in this and similar cases. Why is Islamic borrowing more expensive than traditional borrowing? Is it because the Islamic banks are greedier? Or are they realizing that their clientele are doing business with them because of faith and they are taking them for being naive?

My friend and I will really appreciate your thoughts.

Thank you very much in advance.

Best regards,

Meftah

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Meftah

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

It is simple and you said it. In Qatar, and in most countries, there is no reason at all that Islamic finance may be more costly than conventional. If it exists, it is then exploitation and greed. Unfortunately, Shari'ah advisors of Islamic banks do not pay attention to these elements. Two things I don't agree with: 1) you said borrowing from an Islamic bank, Islamic banks do not give cash and do not give loans. 2) those of faith are naïve. It is incorrect probably you mean to say are exploited and forced to pay price of their religiosity. It is unfortunate, it happens! Lastly, in some countries the cost may actually be a little higher because of lack of support from central bank (as in UK for Islamic banks now). This forces IBs to keep higher liquidity. BTW, Islamic contracts are cheaper than conventional in Malaysia.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Azlan

Sent: Wednesday, July 18, 2012

**Question: Is debt industry permissible?**

Assalamu Alaykum Prof Monzer Kahf,

There are views amongst us saying that the debt industry itself - regardless Islamic or conventional - is to be stopped. The Muslim community should stop taking loans altogether even for buying houses or cars. Similarly businessmen must stop taking loans from banks, any banks.

It is better and more Baraka not to do business or own a house if you can't afford them.

What do you say of these views?

Azlan Awang

Shah Alam, Malaysia

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Azlan

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

We must realize that there has not been any society without debts. Debts are an internal ingredient of living together. Best in this regards the advice of the Prophet, pbuh: whoever takes property (money) of people (as debt) with the intention to return it, Allah will help him do that and whoever takes property of people with the intention of not return it Allah will destroy his property.

Intention to return must has a real plan to return it which includes the ability to do that. This means carrying debts through Islamic debt-creating contracts or through loans without interest is not only permissible but advisable because it invokes the help of Allah provided one had a definite plan and ability to pay it.

On the other hand, accepting to become under debt, whether for buying things according to Shari'ah contracts or through borrowing, is discouraged and may be Haram when it is outside the ability to pay.

Further, living outside one's means is certainly not acceptable and discouraged unless under necessities. Such necessities call for help on donation basis from Zakah and Sadaqah and also call for social responsibility on the part of the whole Muslim community/ society/government.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Shaquib

Sent: Monday, July 02, 2012

**Question: Better offers for working in conventional banks**

Assalamu Alaykum,

I am currently working with a bank in UAE which is totally Islamic Alhamdulillah.

Almost 4.6 years in bank, but there is no increment from past 4 years to entire staff as we are a loss making bank.

Recently my bank was taken over by another Islamic bank and as per their contract and policies our salary package is higher than their employees with same role and designation, whereas mine is low as per there profile.

I would like to ask if I get an offer from a conventional bank which has Islamic products (lot of products) and I will only source Islamic product.

I have informed them that I will do my target only on Islamic products and won't sell any interest-based product. InShaAllah they will agree to my term and conditions as they are only concerned with numbers.

Is this will be Halal source of income for me?

Kindly advice

Jazaka Allahu

Regards,

Shaqib

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Shaquib

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This is permissible. If you transfer to a conventional bank to do only Islamic banking products your job will InShaAllah be Halal and also your salary will also be Halal. What matters is to do your work right and with honesty and to avoid doing anything Haram such as writing or approving an interest-based contract. You are not responsible about the sources of fund of the bank itself. Remember also that Islamic finance products also generate income to the conventional bank.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin  
Wassalam  
Prof. Dr. Monzer Kahf

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From: Satria  
Sent: Monday, July 02, 2012  
Location: Indonesia

**Question: reserve requirement and credit creation in Islamic system**

Assalamu Alaykum wa Rahmatullah

Dear Dr. Kahf

Alhamdulillah in this great occasion I can send a letter to you.

First of all, I'd like introduce myself. My name is Satria.

In this letter, I want to ask you a question. Now, I do a research in case of reserve requirement and its influence in money supply according to Islam. And here, I want ask your opinion, how reserve requirement can influence the money supply in monetary system? I've read your articles and also your paper in International Seminar in Makkah in Islamic Monetary System, and right now I want to know about your opinion directly from you,

And hopefully you deign to give any papers or articles supporting my research.

Finally, I'm so sorry if my letter contained any mistakes. Thank you so much for your answer.

Best regards for you sir.

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Satria

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Reserve requirements allow banks to issue credit up to an amount determined by the multiplier which is the reverse of the reserve requirement. This applies to the banking system as a whole not to a single bank.

The idea is if banks (it does not matter, conventional or Islamic) are required to maintain 20% reserve requirements (cash in vault plus deposits in central bank) then any finance they give (loans in conventional banks and Murabahah, Ijarah or sharing in Islamic banks) is going to be deposited back in a bank, I.e., it is going to be back in the banking system as a total. And the maximum ratio of deposits to cash should be 100/20 in this example. This means that on the asset side financing shall be 400 for each 100 units of currency as the two sides of the consolidated balance sheet should match.

Notice that demand deposits (the 500 amount of deposits) are considered part of the money supply and the percentage of 100 to the 20 is the reverse of the cash reserves requirement.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Rizwana

Sent: Sunday, June 24, 2012

**Question:**

Salam Sheikh,

Please let me know if Islamic banking halal? There are banks which operate under the Islamic Shari'ah. Also, there are Islamic sections in banks like Amanah of HSBC also operate under Islamic banking laws. Please tell me if I can deposit money into those accounts and take the profit.

Jazakallah

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. rizwana

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Islamic banks are Halal, and the profit they distribute to their depositors is Halal too. This does not mean that, like anyone of us, they don't make mistakes but these mistakes, does not drive them to the line of prohibition and Haram.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Islamonline.net

Sent: Monday, April 02, 2012

Location: Jordan

**Question: Contracts practiced by Islamic banks**

Assalamu 'Alaykum Warohmatullohi Wa Barakatuh,

Dear respected Doc. Monzer,

I'm deeply impressed with the abundance of knowledge that you have..I pray that it will be such a great contribution to our Ummah with ultimate rewards from Allah 'Azza wa Jall. Doc., I would like to ask you a few questions regarding the instruments practiced by Islamic banks. Actually I'm an Islamic banking student studying in Jordan in **البنك والوس** but I'm totally not an Arab-speaker so there are some ideas that I couldn't understand very well, although, perhaps it would have been the very basic ones..

1) In Mudarabah contract, I understood that the distribution of profit is carried out in the form of 'nisbah' such as 70% to Robbul Mal & 30% to Mudarib. It is unlawful to have a fixed amount of return to be pre-determined in the beginning of contract, and the thing which I didn't understand is the reason of this prohibition in this case. I just knew (if it's true) that the reason is coz it will be Riba, based on the principle: **بئلقرض جرف علف موليا** Actually I still couldn't relate this concept with Mudarabah contract. It is a form of agreement between 2 people, why in this case it is called **قرض**??

2) I've learnt that some of the factors that influence investment (I) is the interest rate(IR) and marginal efficiency of investment(MEI), and the relationship between IR and I is negative,

whereas between MEI and I is positive. Can you explain what actually MEI is? And how come the relationship between IR and I is negative??

I really apologize that my question seems to be theoretical, nevertheless thank you very much in advance for your attention.

May Allah bless you, Wassalam

**My Answer:**

- 1) Matters are always taken by what they really are not by what they are named by anybody or by the contractors. If one gives the other an amount with the condition of returning it with a contractually secured amount. The contract is then loan and cannot be claimed otherwise. Because we have here the element of loans: guaranteed principal and guaranteed return. A return cannot be guaranteed without guaranteeing principal. A loan transfers ownership and the lender becomes an owner of a debt (liability) on the debtor. A liability cannot and does not earn because it cannot generate increments. If you give on Mudarabah, the taker becomes an agent and the property remains in the hand of depositor. You own the money itself; any return from its investment is yours except for the agreed compensation of the manager (Mudarib). This is why not because of what you said.
- 2) MRI is the return on investment or more accurately the return on the last dollar invested of course if the MRI goes up this increases investment because it becomes more attractive. The idea in capitalist system is that interest is a cost because you borrow money to invest. Then the relation is negative between investment and interest rate.

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## FATAWA ISLAMIC BANKING 2011

From: Tariq

Sent: Sunday, November 06, 2011

**Question:**

Dear Br Monzer

A conventional commercial bank has offered a person to take his property on rent for installation of an ATM.

Please guide whether the Shari'ah allows this place to be rented out to the bank for the purpose of installing an ATM over there.

Wassalam

Tariq

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Tariq

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

It is permissible to rent it a space for ATM. ATM functions have no Riba in them and all its transactions are normally permissible. You are not renting it for any Haram activity. On the other hand, the source of income of the bank is immaterial to your relation with it.

Wa Allahu A'lam  
Wa Alhamdu Lillahi Rabb al Alamin  
Wassalam  
Prof. Dr. Monzer Kahf

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From: Hashem  
Sent: Monday, September 12, 2011

**Question:**

Salam Dr. Kahf.

Would you please clarify one thing for me regarding Shari'ah compliance? I have an internal struggle and confusion.

If an Islamic financial institute gives you a loan for a purchased property but they borrow the money from Fanny Mae or other American financial institutes would this be acceptable and Shari'ah compliant? And is this what really happens or do I have a misunderstanding about the issue?

In other words, where do Islamic financial institutes get their money from? Also, do you know of any Islamic institutes which they loan their own money?

Would you please elaborate on this issue and give me a piece of mind to deal with this mental fatigue?

And what are the issues that I need to watch for when I deal with an Islamic bank and be Shari'ah compliant?

May Allah reward you. Jazaka Allahu Khayran!

Hashem,

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Hashem

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

There are two points in your query:

1. Is it permissible to deal in a permissible contract with a person/company who deals with others in a non-permissible manner? Yes it is permissible because it is none of our business. We cannot poke our nose into other persons' businesses. Don't we buy or rent a house from an owner who finances it with Riba and buy bread from a bakery which buys its flour on Riba loans?

2. Do Islamic finance providers in America refinance their products with FM or FM or they use their own resources? All of them do not limit their activities to their own resources. There are three kinds of IF providers in America: 1) Islamic finance companies which abide by Shari'ah in all their activities, these have made arrangements with FM and FM to accept their own Islamic contract in refinancing. This is why these providers finance on the basis of declining Ijarah (sometimes they call it partnership). In Ijarah they own the property so that they can sell it to FM or Fm. 2) providers which are not Islamic at all and they have conventional banking activities but they found Islamic finance profitable so they offer it side by side with

conventional. The I F contract may be quite OK but they don't care about refinancing according to Shari'ah. 3) companies which claim they are Islamic and do not deal with Riba but in fact they use standard loan with interest contract in financing homes (and still they claim they are Islamic!) and FM and FM accept this of course as they accept from other interest-based companies. Like they accept it from other finance companies.

When you deal with an Islamic bank which has its Shari'ah board you need only to worry about the issue of Tawarruq which is accepted by some below standard Shari'ah persons but in fact it is a trick around interest because it amounts to cash against a debt of a larger sum.

When you deal with companies that claim being Islamic you need to check their Shari'ah advisement and the text of the contract both.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Raza

Sent: Wednesday, August 31, 2011

Location: Pakistan

**Question: IBs and credit creation**

As salaam -o- Alaykum,

I hope my email finds you in best of health and happiness.

Islamic Banking has played an important role bringing the Islamic Financial & Economic system's (IFES) discussion to forefront and as a result along with other factors, IFES is being discussed at the global level. At the same time, numerous reservations on IB have been raised as well. But I believe one objection against IB is not only valid but vital, i.e., credit creation. IBs are contributing in the credit creation just like non-islamic banks process and we all know the consequences of credit creation by now. What solution can IB provide as an alternative to stop credit creation process? What need to be done to eliminate the existing false credit? I would appreciate your early response.

Was Salaam,

Raza

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina

Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Raza

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Are you sure that credit creation is bad? And are you sure about this generalization that you made? Economists believe that credit creation is a blessing. I agree with them with no reservation. What I don't accept is not credit creation but debt trading and creating false assets such as options and future contracts. Credit creation is a result of partial reserve system; it is definitely more efficient than 100% reserve and has much more blessing, when credit creation is restricted to financing exchange of real goods and services; (as what IBs do) it helps the

economy. But what I object to is sale of these debts between banks and packaging them and selling them to investors (securitization of debts).

Is sale on credit objectionable rationally, analytically or religiously? I find no reason why it should be. This is credit creation...

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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## FATAWA ISLAMIC BANKING 2010

From: Abdulbari

Sent: Monday, September 06, 2010

**Question: Deposit insurance**

Dear Dr. Kahf,

Assalamu Alaykum wa Rahmatullah wa Barakatuh

I was pleased to read about the deposit insurance institution in Jordan and would like to ask the following question:

If the insurance company does not observe Shari'ah Compliance in its investment activities, and its insurance services extend to interest based deposits, in this case we must differentiate between Islamic and Conventional deposits and their contribution, this is clear but the questions is the capital itself, should we differentiate between the money paid to Islamic and conventional banks in terms of managements, staff, and fixed assets? When should the insurance on deposit be considered commercial and when is it cooperative, in other words, does the asset money in the institution and in deposit effect the contribution? Is that if it was for a charity cause it is cooperative? If it was returned to the depositors what is the contribution? And if it was returned to the central bank what is the contribution?

I hope you can enlighten me with your opinion

Best Regards,

Abdulbari

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Dr. Abdulbari

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Please note the following:

1. Under existing situation of Islamic banks, any scheme of deposit insurance cannot make funds for Islamic banks alone because there number is very limited in each country which makes the risk very high, you know a car insurance company cannot live on insuring one car!

This means that except when the whole banking system is Islamic the deposit insurance scheme must combine Islamic and conventional in the country together.

2. Deposit insurance in all countries is administered either by a government organization, as in Jordan and Malaysia, or a public company that is backed by the government, as in the USA. This means that it is neither commercial nor cooperative. It is rather government imposed like social security for workers. Therefore the Shari'ah ruling should be founded on the concept that it is legally required and it is based on the public interest (Maslahah)

3. The issue of return on investment made by the deposit insurance company is a serious one and thanks for raising it. Of course with the majority of banks being conventional in every Muslim country, except Sudan and Iran, the DI Company is going to invest on interest basis. But since the scheme is based on the legal obligation, this does not affect the beneficiary (on the basis that benefits are not the accumulated contributions plus their combined interest but rather what the law decrees. Would ask a worker who benefit from a pension or his widow that benefit from death benefit or a beneficiary from a payment on a car accident caused by a driver who is insured with a conventional insurance to isolate the interest element in the investment of Social Security or the other insurance company out of the pension or benefit sum and give it to charity, my answer is no)

4. There cannot be isolation in capital, management, offices or employees between contributions from Islamic banks and contributions from conventional banks because of the authoritative nature of the company being governmental and of course it is not owned by contribution payers. When all the banking system is Islamic of course the issue on interest-based investment does not come out because it will not be available anyway and then the law must determine the venues of investment of the DI company

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Asim

Sent: Sunday, August 22, 2010

Location: Pakistan

**Question: Islamic central banking**

Dear Br. Monzer Kahf

Assalamu Alaykum Wa Rahmatullah e Wa Barakatuh

Hope you are fine

I want to discuss an important issue regarding the conduct of central banking in an Islamic system of Economy.

There is an important book "Transition to a Riba Free Economy" of Mr. Waqar Masood Khan Ex Secretary Finance Government of Finance Pakistan, the summary of his argument is presented below:

The reserve requirement for commercial banks as in conventional banking (Statutory Liquidity Requirement & Cash Reserve Requirement to avoid loss of default) will be same in an Islamic system; the only difference will be of cause for which reserves are held with central bank I.e.

these reserves will be used as an equalizers of profit announced by commercial banks in event of they suffer loss and further central bank will invest these reserves on the basis of Musharakah arrangements.

Sir my questions are,

1. Whether a central bank also has a commercial and business participatory role in an Islamic Economic System rather than supervisory and regulatory role?
2. Whether a central bank should act as a trading organization?
3. If central bank earns profit on Musharakah Investment of said reserves of commercial banks what portions of profit will be given to commercial banks?
4. What will be the basis of apportionment of profit?

Furthermore please recommend me any book that deals with Taxation System in an Islamic Economy.

I will be extremely thankful to you.

Regards

Asim Bashir Khan

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Asim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I am glad to hear of your new appointment and Ramadan Mubarak to you and your family.

Do you expect that the Profit of the Qur'an would have anything about central banking? If not then we can mold it in accordance with the best wisdom of the time. In other words, there is nothing Islamic or not Islamic in a central bank also acts as a trader in the process of conducting the management of money and credit in a country, there is also nothing Islamic or non-Islamic in choosing any rate, ratio or criteria of distribution profits between central banks and commercial banks when the central banks provides sharing deposits to the commercial banks.

Further, I notice in your briefing of Waqar views a little mix up, I wonder whether it was yours or his! Liquidity reserves and cash reserves are different from reserves that can be used to equalize or smoothen distributed profit, the latter are reserves taken from the profit accounts not a percentage of deposit and liquidity risk exposure.

I don't have a specific book on Islamic taxation but be careful of taking any text that simply copy the historical experience of the Muslim society and consider it the Islamic system of taxation.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Asim

Sent: Friday, August 13, 2010

**Question: Murabahah**

Dear Mr. Monzer

Assalam O Alykum Wa Rehmatullah Wa Barakatuh Hu

sir in quest of knowledge and research on Islamic Economic Order, at this stage (being of not reasonable financial profile to pursue out of Pakistan or to live in Islamabad) after having guideline from you and other economists and subject specialists I have decided to pursue course work of Ph.D. in Economics and for specialization and research work I will opt to go to an internationally recognized institution InShaAllah.

Furthermore want to know your opinion about "Murabahah". Mr. Nijatullah Siddiqui and some other economists have a very strict verdict about it. In their opinion it should not be considered as a mode of Islamic Banking.

Please give your comments about "Murabahah Financing".

Once again I am cordially thankful to you for the support and coordination you extended to me.

Regards

Asim

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Asim

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I believe that Murabahah is permissible and essential contract for financial intermediation. I distinguish between debt based finance that is done by loan contract and debt creating finance that is done by Murabahah. Here there is a real commodity changing hand. In the debt creating doctrine a debt can't be a basis of finance, meaning once a debt is created it cannot be traded. Therefore what Siddiqui fears of (creating piles of debts) does not occur under the debt creating doctrine. Similar to Murabahah is Ijarah with Tamlik. I also see it as another contract suitable to Islamic financial intermediation.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Osama

Sent: Friday, January 15, 2010

**Question:**

Walaikum as salaam wa Rahmatullah wa Barakatuh,

I am sorry if my question was not clear.

InShaAllah all is well with you. In the past few weeks I have been working a bit more intensely on my research and I am almost set on the exact direction of my paper along with an outline. In getting my paper set up I came across a recent article on BBC titled How Shari'ah-compliant is Islamic Banking? (<http://news.bbc.co.uk/2/hi/business/8401421.stm>) The article starts off with the following quote:

"The question's pertinence was raised in March last year, when Sheikh Muhammad Taqi Usmani, of the Accounting and Auditing Organization for Islamic Finance Institutions (AAOIFI), a Bahrain-based regulatory institution that sets standards for the global industry, said that 85% of Sukuk, or Islamic bonds, were un-Islamic."

This caught my attention especially as I have been reading different works on different types of financial instruments/contracts found within modern day Islamic banking and the claim that Islamic bankers and economists have tended to modify the conventional, fractional reserve banking model to non-interest operations. I'm assuming that because many Islamic finance institutions are simply trying to "Islamize" conventional, profit-based banking, Mufti Usmani believes that 85% of Sukuk (let alone other aspects of Islamic banking) are un-Islamic.

With this in mind, in a hypothetical situation where we have an ideal Islamic state and Islamic economic system would we actually have any of these aspects of Islamic banking we find today, such as Musharakah, sukuk, etc.?

As well in our ideal system wouldn't it be smarter to have the government set up a central bank that was there primarily to serve the people, unlike private banking (whether Islamic or not) which is driven by profit margins?

I was debating a few things over in my mind after having read Dr. M Umer Chapra's article on the authenticity of Islamic Banking. As well, I understand that we are allowed to adopt principles from non-Muslims as is seen in the use of the ditch during the battle of al-khandaq by the Prophet Muhammad alayhi as salaam when Salman al Farisi (ra) recommended it. And if we do not have this example, does it mean that we cannot take anything from others?

At the time I was just wondering if whether or not we would be better off without banks.

1-As a follow up, I had a few questions on the issue of fractional reserve banking, where banks issue out credit (a cheque with no value that is not backed by any real asset) to borrowers. Within the framework of an Islamic economy would this be allowed or must any loan that is given out actually be redeemable for the asset that backs the currency?

2-Further, now everything is electronic. Is the balance sheet well balanced electronically, i.e., suppose there is no paper currency at all.

3-As well, in terms of backing the currency by the asset many people claim we should return to a gold/silver currency. Islamically, we must have the currency backed by a real asset (not necessarily gold/silver though) correct?

4-This being the case, if the currency is backed by a real asset like gold/silver wouldn't the money supply be finite? How would this be dealt with as the population continues to grow?

5-I have learned from my research that in terms of the credit creation, banks have the ability to create money out of debt. For example, under the fractional reserve banking system a depositor comes into the bank and deposits \$100. If the government sets the reserve requirement at 10% the bank must take \$10 and put in reserves. The other \$90 it can lend out. But while lending out that \$90 it still guarantees the depositor his \$100. So, despite depositing only \$100, there is now \$190 in the money supply. This extra \$90 was created by lending, and that creation is possible because the money is not backed by any asset. Since the borrower must pay back \$90 plus the interest, he will eventually have to take out more loans since the bank only created the principle (the \$90) but not the interest. Playing out this example on a larger scale, it can have disastrous consequences on a society. Over 90% of money in circulation today is credit created by this process, and it merely exists as numbers on a computer. If all money had to be backed by an asset wouldn't it help solve this problem?

Looking forward to hearing from you. I cannot emphasize how much help your responses are.

Osama

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Osama

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Let me settle a few important points to begin with:

1. Whatever Usmani said is his opinion and it turned, after he and AAOIFI, issued amended standard on Sukuk, that he was talking about a few Sukuk issued on Musharakah with guarantee in Malaysia, very partial point.
2. Most Sukuk are in fact Shari'ah compliant especially those issued on leased assets or usufruct.
3. Islamic banks cannot be described as un-Islamic because they imitate conventional banks, after all this vehicle of banking is a Western invention and we take it from the west and adapt it to our Shari'ah, anything wrong in that? Haven't our ancestors done that in the past and they lived Islamically?
4. Is there anything wrong in pursuing profit? Whether in finance or other trades? Is nationalizing the banking activity better?
5. Do we find anything wrong with partial reserves? Is this principle inappropriate technically or religiously? Does it make banks, Islamic or conventional, reap illegitimate profits? Or rather provide services at lower cost?
6. I don't like to extend my imagination too much, but does an Islamic finance system have to be without Musharakah, Mudarabah or say sale on credit? No I don't think so because these are contracts that proved survival over all centuries from the beginning of humanity and under all systems...
7. Do we need specialized institutions in financial intermediation in the pure Islamic system? I argue, YES. And it is wrong to think that because it is invented in the West and because Shari'ah permits several ways of econo-financial regulations/organization this one is wrong and we should avoid it. I think it is a part of efficiency and equity that are objectives of all systems, Islamic included.

As for the questions you have asked:

- 1- This is a complex fallacy! Who said that banks (Islamic and Kufranic) create money in the form of credit without backing. Study the balance sheet of any bank. You will find it balanced; it does not give any credit that is not backed, does it? Besides, is it not more efficient than holding paper currency in a vault or metals in a basement?
- 2- Every bank only gives to finance requester's credit that it stands to fulfill, does it not? Where is the problem that you cried? If reserves are 100% and you record deposits as credit in your balance sheet, can you give any finance as the amount of cash you have should equal the amount in the creditors' accounts? WOULD THE BANK BE ONLY A BOOK-KEEPER?
- 3- NO, who said so and where does it come from. It is simply a matter of pure civil judgment not a Shari'ah matter at all. In spite of what is written in classical Fiqh that "gold and silver are money by their nature" this is from their mind not from Islam.
- 4- This becomes irrelevant. Think of this: which is better allowing producers of gold and silver to determine the quantity of money in our economy or allowing the government. Also

remember that with all corruption and dictatorship in the Muslim lands today, do we argue that we do not want a government in the Islamic system?

- 5- Did you see any bank balance sheet? Please look at one and see if you find it not balanced! Where is the creation of money in circulation? It is a matter of mere definition and. We in econ define certain debts as money, don't we? When a bank receives a loan from a depositor (aren't deposits in conventional banks all loans?) you call it money and when you receive a loan from a friend (depositor) you do not call it money, what is the legal difference? This is one, two: suppose the bank is asked to maintain 100% reserve. Does it become only a book keeper or it remains a financial intermediary? We can create bookkeepers but these are different animals? Now the main objective of depositing with a bank (an Islamic one at least) is to gain profit (or interest in conventional). If the bank is required to keep all this money I deposit in a vault, 100% how can it create profit and what can it give as finance to any one? There will then be no finance at all and then we as people of surplus will have to create certain institutions that are not required to maintain 100% cash to deposit and have them provide finance to persons and entities of deficit that need finance. Is that what you call for..? Well we found them they are the banks that live on partial reserves! Three, is there a cost in having big vaults to keep the cash safe and a cost to maintain accounts? The society is then required to bear this cost regardless of whatever methodology we use and whoever is going to bear its burden. Please don't be fooled by fallacies? Last, if the law and system is giving any person or entity a privilege that is not given to others and because of this privilege this entity is reaping a rent we should tax it. This applies to a bank or any other entity in the economy. If banks, because of this practice are gaining profit that is caused by the privilege of allowing them to receive deposits from the public while other entities are not allowed the same, tax them to create equality and fairness.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Isa

Sent: Friday, January 01, 2010

Location: Nigeria

**Question: Deposit insurance**

Assalamu Alaykum wa Rahmatullah,

Good day and happy new Islamic Year, may Allah (SWT) give us the ability to improve on our deeds Amin.

Sir, what is the Shari'ah stands regarding deposit insurance in Islamic banks?

And for a bank that is operating in country where the Central Bank is not Shari'ah based, how does it insure its deposits.

JazakaLLah, waiting to hearing from you please.

Zakariya'u Isah

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Isa

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Insuring demand deposits in Islamic banks is permissible because the bank guarantees these deposits. Insuring them means getting this guarantee transferred to another party and paying the premium. We need to emphasize that if Islamic insurance is available it should be used but if it is not available it can be done through regular insurance and if the government creates a deposit insurance corporation, it is OK because it is a government law and body.

Investment deposits are in fact based on Mudarabah and may bear losses. Some Islamic banks create internal insurance for them under the name of investment risk provision. This is created by assigning a small percentage of the profit of depositors to this provision, it is declared to them in the contract. This is also permissible. Another way of doing it is like what Sudan did: create a government body for insuring all deposits, charge the bank the full premium of demand deposits to the IBs and only a small part of premium of investment deposits to the IB, and another small part to central bank and most of the premium to depositors taken out of profits.

When a central bank that does not provided equal treatment to Islamic banks impose on them deposit insurance they should obey and negotiate changes to make it Shari'ah compliant.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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## FATAWA ISLAMIC BANKING 2009

From: Mohamed

Sent: Wednesday, November 04, 2009

**Question:**

**Do Islamic banks need more capital adequacy?**

Assalamu Alaykum

Dear dr. Monzer,

Islamic banks are exposed to more risk than conventional banks because they own while in the process of financing, On the other hand, they carry with them partner on the right side of the balance sheet (investment depositors) they may need more or less capital adequacy depending on the risk weight of these assets and the ability to shift risk to depositors.

It is regarding the question, Are capital adequacy requirements imposed on conventional banks appropriate to Islamic Banks, especially when we consider profit sharing schemes?

Thanks a lot.

Mohamed. Ramadan

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

There are two areas that we need to focus on in matters of risk management in Islamic banks: areas of the contractual relationship with the beneficiaries of Islamic finance and area of the sources of Funds of Islamic banks. On the side of use of funds because Islamic finance contracts, unlike conventional banking, are required to own real goods, assets and/or services before they can finance them to their clients they are exposed to the risk of ownership that may include hidden defects as well as the new contract risk. In contrast conventional banks provide loans only and these debts only involve credit risk.

On the side of sources of funds, Islamic banks have partners because investment deposits are taken on the basis of Mudarabah investment. This means that depositors carry risk of adversities along with shareholders. It is not the case in conventional banks that have lenders at fixed interest on the side of sources of fund.

Therefore, in the total Islamic banks may need more or less capital adequacy depending on the risk weight of these assets and their ability to shift risk to partners/depositors.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Aslam

Sent: Thursday, October 15, 2009

**Question: fractional reserve system**

Dr. Monzer,

Assalamu Alaykum. I pray that, by the Grace of God, all is well with you and family. I hope you remember me: I am from Dallas area and have moderated the Islamic Financing and Zakah workshop in 2007 Dec at Irving mosque.

Based on my understanding, in Islamic financial system money can't be multiplied like that in a fractional reserve system of the western banking system. if that is the case, then what is the role of Islamic banks in a financial system? Could you provide any URL or send me any papers that will give me some overview?

I have been invited for a discussion tomorrow noon. I have general understanding of other area of Islamic financing, but I need to educate myself about the role of Islamic banks from a money supply perspective.

Regards,

Aslam

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Aslam

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The money/credit multiplier is a result of a fractional reserve system. Modes or contracts of finance do not affect it. Hence, it exists in Islamic and conventional monetary system with same

mechanism. We are not against it; it is a matter of policy tool. There is nothing unjust, exploitative or immoral about it! On the internet there are some writings on this matter by Siddiqi and I may be within other papers/presentations.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Wael

Sent: Saturday, August 29, 2009

**Question: was banking known at the Prophet's time, pbuh?**

Salaams

Dr. Monzer, pls. help replying the following question:

Assalamualaikum. Thank you for taking the time to answer my question. I would like to know if banking was known at the time of the Prophet (pbuh). What kind of commercial activities were carried out at that time? Shukran

Wael

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br.

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Banks as institutions date back to the sixteen century of the common era. This means that at the time of Prophet, pbuh, there were no banks.

However, the main activities banks do is finance and finance is as old and the human society. Normal finance activities used to take place in all societies thousands of years before the time of the Prophet, pbuh, and during his time too. Financing during the time of the Prophet, pbuh, used to take place through real transactions namely: sale on credit, renting, and pooling resources together from several people to create a new project or venture. Of course some debts, created by sale on credit and lease may not be paid on the due date and giving an extension of maturity used to take place with increment. That is increasing the amount of debt for the new extended maturity. This is why many Shari'ah scholars state that this is exactly the definition of Riba that is mentioned in the Qur'an as prohibited (2:275). Of course it goes without saying that the verse also covers creating a debt by giving money (loan) and charging an increment on this debt for the period until maturity.

Other banking activities like currency exchange and money transfer from one country to another used to be practiced too. Currency during that time was either gold or silver and there were needs from exchanging one for the other. This was done by merchants, but shortly after the Prophet, pbuh, within the first 200 years there were merchants who specialized in providing the service of currency exchanged. They are called Sarraf. The Sarraf is the first historical version of a bank. The Sarrafs in Damascus, Baghdad, Mosul, Halab, Cairo, and other Muslim Cities were doing certain other functions in addition to money exchange. These functions included safe keeping of Money for their customers and providing them with payment facilities

that used to be called Sukuk (s. Suk) or Ruqa' (S. Ruq'ah). The Suk was a piece of paper marked by the specific Sarraf given to the depositor whereby the latter can use it to pay the merchants from whom he buys goods by writing the name and amount of the payment on this piece of paper and then the merchant would submit this Suk to the Sarraf to get his gold or silver. This facility was necessitated by the fact that metal currency was heavy and one wouldn't carry it in pockets while roving the market to buy one's things, this use of Sukuk in the origin of the cheque as we know it today. In fact, the word cheque itself came from the Latin Sek that came from the Arabic Suk. Is that a surprise to my questioner?

During the Crusades Europeans learned this profession from the Middle East especially Syrian, Iraqi and Egyptian cities and in the years that followed the 1200 CE we started seeing Sarrafs in the Mediterranean European cities, the European Sarraf later developed into banks when they started lending the extra money that is kept with them for safe keeping.

Lastly, we must realize that financial contract like money exchange (Sarf), deposit (Wadi'ah), Sale on credit (Bay' bi Ajal), loan (Qard), money transfer (Suftajah), advance-payment forward sale (Salam Bay'), etc. were known During the Prophet's time and they were later described in details in the Fiqh literature as early as the first 200 years after the Prophet, pbuh.

We should realize that Islamic banking today has deep rooted history in the Muslim society that it can relate to.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Mohamad

Sent: Wednesday, August 12, 2009

Location: Malaysia

**Question: Prize scheme for depositors in IBs**

Assalamu'alaikum Dr. Monzer Kahf

Perhaps you have heard of the Al-Awfar Scheme that is being advertised by Bank Islam in Malaysia. I would like to know your opinion about this scheme. The Shari'ah Council in Malaysia said that it is not gambling but I doubt it. Look at the advertisement: Introducing a FIRST in Islamic banking. An innovative Mudarabah-based account that gives you the opportunity to get a grand prize of RM100,000 cash every 3 months. Who knows, you could be getting more for your money!

DEPOSIT RM100 AND YOU MAY GET RM100,000!

Features: Saving Account-I, Investment Account-I

Minimum Initial Deposit: RM100, RM1,000 - 1 month tenure, RM500 - 3 to 60 months tenure

Minimum Balance: RM100

Profit-Sharing Ratio: 98:2 (Bank : Customer), 70 : 30 (Bank : Customer)

Who can open an account?

Individuals

Associations

Schools/Universities

Clubs/Societies

Religious Groups

Eligibility to Enter Prize Draw

Every RM100 = 1 unit of entry

Frequency of Prize Draw

Quarterly

Frequency of the prize draw is every three months.

Customers will be entitled to participate in the quarterly prize draw and enjoy the probability of receiving cash prizes. The cash prizes structure are as follows:

Prize	Cash Prizes RM	No. of Quarterly Prizes
1	100,000	1
2	10,000	1
3	5,000	1
4	1,000	3
5	500	5
6	250	18
7	100	500

All cash prizes are provided by the Bank.

Perhaps you can share with me the reasons why you find the scheme not desirable from the Islamic point of view.

I am teaching actuarial science at an Islamic University in Malaysia and I consider this scheme has elements of gambling in it. I have lamented about it in my blog. Below is an excerpt from my blog:

One of the reasons for prohibiting gambling is so that people will work to earn the money and not hope for luck. If I have RM1000 to save, I should deposit it in a bank and hope that the bank will invest the money and I will agree to share some of the profit with the bank, but if I deposit the money in the hope that I will get RM100,000 through a lucky draw which the bank conducts periodically, I feel it is a wrong objective of depositing the money. It would be worse if I do not expect the bank to give me any profit (or I do not mind getting a lower than the normal profit given by the bank for a normal deposit without lucky draws involved), as long as I am eligible for the draw, and I would deposit more money so that my chance of winning the substantial prize is increased.

I would be very glad to hear your views about the above excerpt. You may view the rest of my comments in my blog.

Another bank in Malaysia (Al-Rajih) has introduced a similar scheme they name I-zamzam, where depositors get a chance to perform the Hajj or Umrah through lucky draws that they periodically conduct.

I remember a Fatawa on Islam-on-line that considers the scheme introduced by a bank in the middle east (al-Mashreq) as haram.

Once again I would like thank you for your opinion and apologize for troubling you.

Mohamad

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mohammad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Based on the info you sent, it seems that this product is permissible, it is a promotional order and it is permissible to give prizes as promotions for new accounts and the like. I personally do not like it though.

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The permissibility of the product comes from the fact that the deposit is intended for its own purposes that are not earning the chance of winning a prize, this chance is incidental to the transaction. If the sole objective of deposit is to win this chance it becomes not permissible on the ground that this chance is a sort of financial benefit from the deposit that is Riba. On the basis of this argument the OIC Fiqh Academy issued a resolution (I think in 1992) considering bonds and time deposits with prizes non-permissible and Riba-based.

I know that many Islamic banks (and many conventional banks too) offer such prizes and gifts for opening checking accounts. This is a part of advertisement measures to attract customers. This practice, within these limits is not non-permissible. I personally hate it because it is a little close to the prize bond. This is why I do not hate giving a definite gift for opening a checking account.

As a comment on your statement, I agree with the general idea. BUT I do not rule out the permissibility of earning through prizes. A prize differs from interest or gambling by an important factor. A prize is a one will decision while gambling and interest both are exchange contract. This is why a gift to a lender is permissible and is considered a form of "Husn al Qada'" that makes it even recommended and desired provided it does not become usual and customary as this brings it under exchange condition in a contract.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Nurhayati

Sent: Thursday, July 23, 2009

Location: Malaysia

**Question: Liquidity Risk**

Assalammualaikum,

I hope you are well and in good health wherever you are. I am Hayati from Malaysia & I attended one of your courses back in April 09 in Kuala Lumpur, Malaysia.

We are in the midst of reviewing our Liquidity Risk Management guidelines and are assessing the treatment for Islamic investment accounts (deposits).

As such, I would truly appreciate it if I could obtain your view on this matter. As you may well be aware, in Malaysia we have imposed for banks to calculate their mismatch of liability vs

assets according to time buckets and impose a liquidity compliance limit for the first 2-time buckets. As such, my queries are as follows:

i) Could a specific investment account (restricted Mudarabah deposit) made by a depositor/investor be excluded in its entirety from a quantitative compliance limit? This is based on the rationale that the Islamic bank as a Mudarib could have transferred its liquidity risk to the depositor. This is because in the case of early withdrawal of deposit/investment, a fund provider should allow a Mudarib to sell off the underlying investment & fund provider should accept whatever profit or loss arising from the disposal.

ii) To your knowledge, are there any regulators that exempt certain products (e.g. those products that allows banks to transfer liquidity risk elsewhere) from liquidity risk requirements?

iii) While some products may appear to have transferred liquidity risk to investors/depositors by way of a clear legal documentation, there is still the issue of moral obligation for banks to honour early withdrawals without passing on any losses from disposal of underlying assets (& hence take on liquidity risk) in order to maintain good rapport with depositors, etc.

What are the appropriate mitigating factors to ensure that such risk of moral obligations are minimized?

I hope to hear from you soon. Thank you.

Kind regards,

Nurhayati Mohd Khalid

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Nurhayati

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

i) Of course you must exclude restricted Mudarabah deposits from any reserve whether to be deposited with the Central bank of liquidity reserves. These are not time deposits and they are committed to projects selected by depositors, for them the bank is not a decision maker. Any liquidity risk should purely be borne by them alone.

ii) To my knowledge all regulators in the Gulf treat Mudarabah time deposits exactly similar to conventional time deposit in regards to mandatory reserve and liquidity requirements. So is the regulator in the UK. And I don't know of any regulator that provides any reduction for liquidity risk transfer products. But the spirit of both Basel II and IFSB standards requires giving such concession because in both we take zero risk weight when the collateral is a cash deposit with the same bank. Isn't this similar to having an unconditional liquidity line of credit from another bank or holding company that can close the gap of liquidity when needed? Of course with the risk weight of this other bank or holding company.

iii) First, it is not a moral commitment but rather a reputation one. The practice of most Islamic banks seem to me rather rude is this regard, if you break a time deposit they take back any profit for the past mother that they have already credited to your account and transfer it into a full Qard Hassan.

I think that Mudarabah time deposit should be subjected to a partial reserve and liquidity requirements rather than full. My rationale is not only the reputation risk but, from the point of view of regulator, the effect of the monetary and credit system in the country. I suggest that

the ration of reserve and liquidity requirement should be calculated in such a way that makes it fair in comparison with conventional time deposit because the latter is the counterpart of Mudarabah time deposits. Funds of MTD are used within the banking book and the trading book, while normally funds of conventional time deposits are used only in the banking book. I would therefore calculate the percentage of funds of MTD used in the banking book to total MTD and apply it as a percentage of reserve and liquidity requirement, this ratio is the alfa or 1-alfa of IFSB.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Funke

Sent: Friday, March 20, 2009

Location: Nigeria

**Question:**

Dear Prof Kahf,

Salaam Alaykum,

We are constantly receiving application for investments in real estate transactions both for real estate development projects for resale by our prospects who are operators/developers in the real estate industry and private clients/individuals who want to acquire property for personal residential (and other) purposes.

The main challenges of the real estate industry in Nigeria is the statutory requirement by the Federal government that the applicable government consent must be sought for all "Long term" transactions in real estate and all such transactions must be registered. The conventional players in the industry have devised all sorts of means within legal boundaries to bypass / escape the incidence of double transfer / registration fees which usually falls within 10% to 16% percent of the property value.

The Murabahah model seems most appropriate for these purposes. Our main concern is being able to secure our Capital's position and investment in the event of default such as:

- Client's inability to pay
- Loss of interest in the transaction
- Death of the client
- Bankruptcy and insolvency etc.

Based on the above, our questions based on the transaction dynamics attached are:

1-Can we transfer title to the client, if we do not register our title as the owner of the property I.e. purchase form the vendor and resale to the client? If so, how can we execute such? If not, what are the alternatives?

2-Can the vendor executes 2 sets of Deed of Assignment (one in favour of the client and one in the favour of the company) under Islamic Finance?

We ask that you please review the transaction dynamics Vis-a-Vis our concerns and questions and the final way forward.

We look forward to your views and recommendations and pray for God's guidance to you and your family.

Many thanks for your usual cooperation.

Wa salaam

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Funke

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

In Murabahah, you do not have to register the property in the name of LC and then transfer again to the purchaser. I assume if this person goes to a conventional bank, he will be given a loan and a mortgage will be marked on the property. Can you do the same? If you and the seller sign a sale agreement "to your name and/or to whom you assign" as usually done in the states, then on the moment of registering you would have already signed the second sale agreement, you will ask the seller to make the Deed in the name of the final purchaser (your client) and charge a mortgage on it for the total amount of the installments. This way your transaction will be closest to the conventional bank finance and it is within the limits of Shari'ah because you can make the delivery in the sitting of closing before the deed to your client is signed.

The alternative of "shift company" looks fine. It has no Shari'ah problem.

I don't see it appropriate to have vendor sign two deeds at the same time. It is definitely morally embarrassing. I also think it may not be legal.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Tariq

Sent: Thursday, February 26, 2009

**Question: is charging on credit sale Riba?**

Dear Br. Monzer

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Jazakallah.

My question is regarding Islamic Banking and Finance. Islamic Banking and Finance has been picking up momentum since the last few years in the Middle East and some western countries also. It is getting into most of the fields where conventional banking has got its presence. Since Islamic Banking allows charging a higher rate for deferred payments than cash payments, most of its critics say it is Riba in the garb of Islamic Finance and is therefore not halal. e.g., if someone buys a house thru an Islamic Finance Institution, he pays an upfront amount followed by monthly installments, the total of which exceeds the value of the house. The same applies to all goods bought on the basis of hire purchase. The critics say the only difference is that the lender provides the house in this case but charges excess amount like conventional lenders.

Since this concept (of Islamic finance or investments) is relatively new, I assume there will be initial objections from skeptics and even well-meaning people whose intentions will be good

but will still need some more details to clear their doubts. Hence my question and this communication that is following the initial question.

Since Islamic finance mostly depends on Contracts of exchange and not investment, the real point of concern or discussion would lie in how to price the asset that is being sold on deferred payment basis, e.g., a house bought from a lender with cash value of \$100,000 can also be directly bought from a builder on exactly the same terms. Let's say an increment of \$50,000 over a 15 year period. I have read that most Islamic lenders rely on LIBOR as a benchmark for assessing the incremental value of the asset. Is that a right way to do?

Secondly, the increment is also calculated taking into view the time from the initial to the last due date.

In fact, I have recently come across a write up in Islamic-finance.com, where this issue has been dealt with in detail and unfortunately it has come to the conclusion that it is conventional bank lending with a slight change.

I would be grateful to you if you could clear the doubts that arise out of these issues.

Wassalam

Tariq

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Tariq

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The difference is not in the numbers or arithmetic's. The difference is in the nature of contract. Islamic finance goes through credit sale, lease or partnership; it does not go through lending. Therefore the term you used in the subject above is in fact incorrect because there is no such thing as "Islamic loan". It is not a change in words but in paradigm.

What you need to realize is that Islam does not prohibit finance it only prohibits an increment on a debt. It is a whole box of transactions that do not produce value because if you think of it you will notice that a debt does not create value.

I am fully aware of the kind of writing that takes on the similarity between Murabahah and Riba. Please notice that the Qur'an does not deny this similarity, read carefully, 2:275, it rather passes over the similarity that is argued by unbelievers with no comment and divert out attention to the dissimilarities that warrant the prohibition of one and the permissibility of the other.

Sale creates value because it only happens if there is benefit to both parties, when the utility derived from the purchased item is equal to the loss of utility of the item given as a price a contract does not take place, why taking the pain!?

Whereas in lending you do not create any value, you only create an opportunity not a value. Attaching a value to opportunity is pure speculative because it may turn otherwise. If a value created by the borrower later, it is purely and only created by his action and within his property (a borrower owns the money she borrows), taking any part by the lender amounts to taking a thing to which the borrower is entitled, i.e., taking a part of the borrower's property.

Now let us come to deferred payment sale: Here I get a commodity without paying for it now. That is, I will add a thing from which I derive an added utility without reducing the utility I am

deriving from all my other assets (notice normally I am required to sacrifice some other asset for getting the thing I buy), for this reason I am willing to pay more than the cash price because to me I am in fact buying an item and its utility for the period between date of sale/delivery and date of payment. The same argument applies to the seller that will require then a higher price. This same economically sophisticated idea has been mentioned repeatedly in details in our classical Fiqh. This means that while Shari'ah prohibits an increment in a debt (because there is no value creation by a debt) it permits an increment in the price because of deferring the date of payment (again because there is an added value created that is more than the value created by a cash sale). This is basically the most important difference between sale and Riba and this is why one is Haram and the other is Halal. Those, among us, who look at the similarity, only do not realize the true differences that the Verses in the Qur'an refer to. Add to this, a claim of interest on a loan where would it come from knowing that a loan does not create value? There is no source other than the property of other people, this explains the Verse 30:39 please read it carefully and come back to me. One last thing, there are other detailed differences between sale finance and Riba (loan finance) that need more depth and I explain them in my lecturing and courses, you may like to attend some of them sometimes!

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Yuyun

Sent: Thursday, January 08, 2009

Location: Malaysia.

**Question: Islamic Banking Services**

Assalamualaikum prof

I'm student from Malaysia...

I would like to ask your opinion about the Islamic banking services nowadays,

Also I want to ask your opinion about the related between inflation and Riba'

Can you explain to me about it, and I very hope that you can give me the answer as soon as possible.

Thank you for your cooperation.

Salam.

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Yuyun

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

1. Islamic banking is doing well; Islamic banks are expanding growing and increasing in number. Some banks practice, in some of their transactions not all, a few contracts that are controversial such as 'Inah and sale of debts in Malaysia and Tawarruq in Saudi Arabia.

2. There is scientific evidence on any causality relation between interest (Riba) and inflation although it is well known that sometimes one affect the other, back and forth. We cannot make

a claim that inflation is caused by Riba or interest is a compensation of inflation. However there is sufficient evidence that Riba may be a cause of the business cycle or at least a reason for its blow up and expansion. The present crisis has a lot to explain that in fact Riba through debt sale (discounting or securitization) was a major element in the domino effect that pulled down many financial giants.

3. I suggest that you should read some textbook on inflation, money and banking to have more background on these matters.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Nurliyana

From: Mohammad

Sent: Wednesday, January 07, 2009

**Question: Murabahah**

Assalaamu Alaikum Sh. Monzer,

InShaAllah all is well with you and the family!

I have been trying to find an answer to this, but been a little challenging ... What's the controversy in Murabahah transactions? Some scholars/practitioners comment that it's "Riba from the back door". Could you clarify for me?

Jazak Allah Khayr.

FiAman Allah

Mohammad

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mohammad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Let me first look at it from economics point of view, and then I'll go to the Shari'ah:

You know that a sale will happen at a point where the preference of the buyer and the preference of the seller meet. At this point there is a value created in the society because each one of them comes to the transaction with the perception that what she gets has at least "just a little" more value than what she gives. Without such a condition there must be no sale, why taking the pain of making a transaction. Notice in a sale of goods and services there is that utility of what we exchange at stake so that although I mention "perception" we are not talking about false perception that has no reality to rely on, it is rather a real utility that one derive from the exchange.

Now let us apply the same to a sale that has a delivery now and payment later at a higher price. The fact that the sale is concluded at a higher price indicates that the value created is higher than the value created had the sale been for immediate payment and delivery. So there is analytical justification for the price differential which is the extra value created. Where does

this extra value come from? It comes from the fact that you add a utility derived from having the added item to your possessions (thing you have or wealth) without reducing any utility you derive from your all other assets, it is like you add a new utility free (rather for a delayed counterpart, but for now it looks like free). This is an added value created by an exchange with immediate delivery and deferred payment (Murabahah).

The same argument does not apply to debt (giving a loan or extending an already existing debt). This transaction does not create any value because a debt does not have a utility to produce. Unlike goods and services, a debt is a kind of mute asset that does not have intrinsic utility.

Now we come to the Shari'ah explanation: Our ancient Fuqaha used to always say that "a part of the price is created by the time". This time created value is an intrinsic characteristic of goods (and services) because goods create value by either using them (for durable goods) or consuming them (for consumable goods). Notice that this time created value in price is different from time value of money because money itself is also mute (imagine putting it in a vault for a period of time, does it create value?). Hence when it comes to money, our ancient Fuqaha would say it can create value only "by way of goods-based transactions" and that money itself is only "potentially growable?". But money itself does not create value and does not grow. How does not create value by Taqlib? When you buy goods, you transform your holdings into goods from money, then you sell, i.e., transform again into money. Notice here that the increase in value takes place only during the period you hold goods and no increase in value may happen during the time your holding consists of money only.

I hope I answered your question. . One thing is left, the visible similarity between Murabahah and interest is because interest is normally justified by the same analysis but with adding a shift from utility of goods to utility of debts and money. This shift has no economic, logical or of course Shari'ah justification because debt and money are not similar to goods. the latter has intrinsic utility and the formers do not have it.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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## FATAWA ISLAMIC BANKING 2008

From: Wael, Islam on Line

Sent: Tuesday, November 25, 2008

**Question: Buying a car through Islamic bank's contract**

Salaams

Pls. Dr. Monzer, help replying the following question:

Respected Scholars Assalamu Alaykum, Currently I am using a 7 year old Car. I would like to buy a new car by arranging an Islamic Finance, at the same time I don't want to use even an Islamic Finance if there is 1% of doubt in that. I am ready to wait till I have enough cash to buy the new

car. Please advise me on this. I live in Dubai and as you know there are so many Islamic banks are here. Thanks & regards,  
Salaams

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Wael

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

To the best of my knowledge car financing by Islamic banks in Dubai follows either Murabahah or sometimes lease/purchase, both are undoubtedly permissible. What you should avoid is Tawarruq that is an artificial combination of contract meant to hide interest and give you cash now for a larger sum as a debt of future maturity.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Amin, Malaysia

Sent: Sunday, September 21, 2008

**Question: Microloans**

Assalamulaikum,

Dear Dr. Monzer Kahf,

MFI -microloans finance institution had proven us tremendous success especially in Bangladesh with Prof. Muhammad Yunus, the founder of the Grameen Bank. It had pulled out the people of Bangladesh from the grip of poverty to be a self-entrepreneur with its microloans.

But the problem is, the microloans itself operated under 'Riba' where it charge a moderate amount of interest on the people who take the loan.

Would it be fine to charge interest since it just a small amount of loan? Because it purpose is to help the poor and maybe it can be describe as Hibah (I mean the interest).

And prof. Muhammad Yunus said it is fine because it is the borrower-owned bank....

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Amin

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

No and a big NO because the ends do not justify means in Shari'ah. Furthermore, the fact is that once upon a time many people thought that banks can't work without interest and because financial intermediation is needed then the prohibition of interest must be cancelled from our religion... But now everybody realizes that financial intermediation can work without interest as proven by the more than 400 Islamic banks in the world today and that Islamic finance is growing at a rate of more than 15% per year without being exposed to the credit crisis like conventional banks . . .

The same for micro finance. Micro finance can be given without interest on the basis of Murabahah, leasing and sharing but the founder of Grameen, when he was suggested to do that in the 1970s he insisted on making it on interest basis because he was a believer in the interest system. Now all Islamic banks in Bangladesh have established very successful division of micro finance and they are doing it without interest. Besides, Grameen does not charge a "moderate" rate of interest. It actually charges more than double the rate that is charged by Islamic micro finance and the latter do it through Murabahah and leasing that are permissible in Shari'ah. Add to it that Grameen is not owned by the poor, it is presumably a non-profit organization, but it gives good salaries to its employees, in a sense it transfers income from the poor to employees who are middle class! While it takes money free as grants from international NGOs!

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Muriliana

Sent: Tuesday, September 16, 2008

**Question: Musharakah Mutanaqisah**

Salam alaik...

I would like to have your opinion on whether it is applicable and acceptable to have the concept of Musharakah Mutanaqisah on Deposit (e.g.: Deposit for education fund), because I was made to understand an institution somewhere is practicing such.

At another point, I was also made to understand that Musharakah Mutanaqisah is only best practiced on home financing as the value of the financed asset would appreciate.

Could you give some feedback on this matter?

Thank you. Regards.

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Ms. Nurliyana

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Musharakah Mutanaqisah is, in fact a misnomer for Ijarah Mutanaqisah; it is used in the industry especially in house financing because of PR since the word partner gives a better feeling than the word tenant! This declining Ijarah is permissible provided the contract is formulated such that no piecemeal sale is made in advance but rather a promise to sell on piecemeal. It is permissible in all financing of long life assets not only housing.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf  
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From: Nurliyana

Walaikumussalamwa Rahmatullahi wa Barakatuh...

Dear Prof. Dr. Monzer Kahf,

Thank you for your earlier response. I would like to have another clarification on whether Musharakah Mutanaqisah is applicable on deposit. Some say we can use the concept not only for Financing but also for customer's Deposit on savings. (Example: customer's deposit for their kids' education fund). I was told that the customer would get more than what they actually save at the end of the term.

Could you help clarify me on this matter?

Thank you. Regards.

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Nurliyana

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The concept of variable Mudarabah already applies in most Islamic banks to the investment deposits and there is no need for Musharakah Mutanaqisah. If Musharakah Mutanaqisah is only a misnomer for declining Ijarah, Ijarah cannot apply to deposits at all because to earn from the deposits the depositor has to authorize the bank to use the deposited funds in profit generating transactions such as sale, venture capital and leasing.

On the other hand, Musharakah as a finance principle, gives a managing role to the two partners while the bank cannot give a managing role to depositors.

What is actually applied is then Mudarabah on all earning deposits in Islamic bank because Mudarabah keeps management in the hands of the Mudarib that is the bank.

In Mudarabah the principal may vary by new additions or by withdrawals. This means actually that we are better than only declining Mudarabah we are applying varying Mudarabah instead, no room is then left for Musharakah Mutanaqisah!

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Lukman

Sent: Saturday, August 30, 2008

**Question: working in a conventional bank**

Respected scholars Assalamu Alaykum

I need to discuss about Islamic Banking which is a very serious issues nowadays.

First of all I would like to know whether working in any bank is haram. I have checked with nearby Imam and concluded that it is not permissible in Islam to work in any banks because the salary which employee gets is out of total interest earned by the bank, and you know taking and giving interest is a big sin.

Secondly, another Imam said that it's not haram to work in any banks because you are getting paid by the efforts that employee put in as a part of his job. He gets paid on what he does as a requirement to fulfill the job. So which one is correct and if none, please suggest the right way

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Lukman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I don't like to participate in a process of comparing Fatwa. What I suggest to you is to choose a Scholar whom you trust in knowledge and religiosity and discuss with him/her details of the opinion and rationale of argument, then stick to that opinion if your heart feels comfortable with. Running from one Imam to another is not a good way to reach a reliable Shari'ah opinion.

Wa Allahu A'lam

Wa AL Hamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Lukman

Salam

My problem is to discuss whether the idea of working in banks is allowed in Islam because the salary which we get is out of interest received?

Please suggest me as I have not applied yet to any banks

Jazakallah

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mohammad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

If you find a job in an Islamic bank or in any company that is far away from interest it is definitely better but working in a conventional bank is permissible provided that you do not do anything prohibited, namely writing, signing, typing or being a witness to a Riba contract, of course functions that are parts and ingredients of these actions are also prohibited. You need not worry about the accounting source of your salary because you do not make these transactions that generate interest to the bank.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Mohamed

Sent: Saturday, August 23, 2008

**Question: Islamic banking windows**

Assalamu alaykum

In Morocco, banks whose majority of transactions is based on Riba have recently opened counters that provide customers with services that meet the Shari'ah. Can we obtain credit without Riba from these banks to buy a house? The bank buys the house, sells it to the customer against monthly rent with transfer of ownership at the end. Can we deal with this kind of bank where the majority of transactions are haram? Can we trust these banks? Is it risk that the money halal mixes with money haram?

Please answer me quickly

**My Answer:**

Bismillah al Rahman al Rahim

AL Hamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina

Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mohamed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

If these banks offer contracts that are compatible with Shari'ah and you trust this compatibility, it is permissible to take credit from these banks through Shari'ah compliant contracts such as the one you described (lease to own). It is none of our business to look into their other transactions or where do they get their money from. Our relations with such banks ends at and is limited to the exchange contract that we have with them, if this contract fulfills all the Shari'ah conditions, it becomes permissible and any Muslim may take it without any worry about other businesses/transactions the bank has with other people. What you need to be sure about is whether this contract really fulfills the Shari'ah conditions. If you don't know yourself how to do that, you may rely on the opinion of knowledgeable Shari'ah. Aren't these contracts approved by respected Shari'ah expert in Morocco? The normal practice all over the world is that such contracts are reviewed and approved by Shari'ah experts, if your trust these reviewers, that is all that you need. PLEASE, PLEASE do not pock your nose into other transactions that the bank does with other people those are of no concern to you.

Wa Allahu A'alam

Wa AL Hamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Samy, Islam on Line, live fatwa

Sent: Sunday, June 29, 2008

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullah wa Barakatuh,

**Question: Company Offering Services to Banks & Working in a Bank**

Dear ALL, We have got such a situation here, The question is related about what kind of service a company can provide to banks in Azerbaijan, since there is no Islamic bank here. First of all, banks in Azerbaijan have two kinds of function. First, customer service of cash withdraws or etc. Second, credit and loans (RIBA). Therefore the issue of banks credit and having interests making us think about what kind of service can we provide to them, since we have companies and organizations too. Some banks are requesting our services. For example, we have a large company under this we have got office furniture stores, audit and accounting services, other

sales stores. If we assume that any bank wanted to get one of our services, can we offer them any of our services? Is it halal? Or is there any conditions and rules? The other question is, if a person got an offer to work only in bank, but not in a credit section, but in customer service section (cashier), is it possible?

Jazakum Allahu Khairan for your constant help

Yours, Sami

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Shahmar

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Selling goods and services like auditing to banks is permissible. However, anything that is exclusively used for writing an interest-based contract is not permissible. The Prophet, pbuh, said that the Wrath of Allah is on the taker, giver, writer and the two witnesses of Riba. Bank interest is Riba no doubt about it.

On the other hand, working in a bank in any job that does not require you to write a loan contract or any part of it is permissible.

Further, we must remember that we are talking about the very edge of permissibility because there is no doubt that these works and transaction help the bank's interest-based relations and transactions; this means that all such jobs and transactions with a bank would help it carry its interest-based transactions.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Basil

Sent: Monday, June 16, 2008

**Question: Halal Careers in Finance**

Assalamu-Alaykum Dr. Monzer Kahf:

I kindly seek your opinion regarding HALAL CAREERS, Insha'Allah:

Is it permissible to work for a Bank (I.e. CIBC, RBC, HSBC, ING, etc.) with the intention to go into Islamic Banking (I.e. Abu Dhabi Islamic Bank, Shuaa Capital, Kuwait Finance House)???

The reason I ask is because most banks in the Gulf require you have previous banking experience and the amount of vacancies and training with Islamic institutions in North America is limited (Ittihad, ISNA). Furthermore, what is the opinion of the scholars regarding working for a firm (I.e. Shell Oil & Gas) who has raised money using bonds and currently has long-term debt, which it is paying interest on???

I ask this question because most firms today exist because of debt-financing. That is money raised through fixed-income instruments (interest/Riba). The government also sometimes builds infrastructure/services (I.e. Roads, Highways, Bridges) using government bonds, which also work off interest.

I have a Business degree in Finance which I would like to utilize. However, I do not know if it is better for me to work at Non-Halal career temporarily and InShaAllah eventually move into Islamic Banking, whereby I am in a Muslim country and helping a Muslim economy; or, is it better that I work for an Engineering firm in their accounting dept. whose business has been partially built by interest-type instruments.

Jazaka Allahu Kheir,

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Basil,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

As long as you do not write or sign an interest contract, it is permissible to work in a conventional bank or any other company even if it ridden with interest-based debts. It is not a bad idea at all to get some training in a conventional company and then move to an Islamic one. You must remember however that by working in a conventional bank while you are not doing any Haram specifically (if you avoid writing or signing a conventional lending contract) you are helping those who do it and you are of course a part of that organization. Yet, specifically you are making any Haram yourself. The Prophet, pbuh, mentioned only four functions as forbidden in regard to Riba (taking, giving, writing and be a witness to its contract) other job in banks that are not ingredient of these four are not Haram specifically talking.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Basil

Bismillah Al Rahman Al Rahim. Alhamdu Lillahi Rabb Al Alamin, Wa Al Salatu Wa Al Salam Ala Sayyidina Muhammad, Wa Ala Aalihi Wa Sahbihi Ajma'in.

Dear Dr. Monzer Kahf:

Jazaka Allahu Kheir for your reply. Allah (SWT) has blessed you with the knowledge in Islamic Finance, and InShaAllah He Will continues to bless yourself, your family, this Ummah, and your endeavors towards it.

I have received a job offer from the Royal Bank of Canada for an "Account Manager" position. The key accountabilities for this position include:

1. Open new personal accounts and cross-sell additional services such as credit cards, loans, overdraft and investments. (25%)
2. Contribute to meeting sales plan and related activities by actively and effectively assessing customer financial needs and providing effective solutions. (30%)
3. Maintain and grow the customer portfolio by identifying and promoting personal banking solutions with a continuous focus on customer service and new business development. (25%)

Considering the above, that I may be required to sell "interest" related products, but that I will not be involved in the underwriting, is it permissible for me to take this job? Also do the circumstances change if I have the intention to go into Islamic banking?

Allah (SWT) knows best, and I put my trust in Allah (SWT). Whatever is destined for me, I will InShaAllah be please with.

Jazak'AllahKhair,

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salam ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Basil

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I did not understand what do u mean by: "will not be involved in underwriting" It seems that selling credit cards and opening time deposit accounts to customers are part of writing Riba. Let alone offering loan solutions to customers.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: MONA

Sent: Thursday, June 12, 2008

**Question: offering Musharakah and then Murabahah sale to the partners**

Salam

Q: 1- could a bank enter in a Musharakah project whereby it provides funds to a client who has an option to buy piece of land at a lower price than the market price on the basis of 60% (bank)- 40% (client) where by the purchased land will be registered in the name of the bank.

2- The land contains an old building which needs rehabilitation & the bank is going to finance his client (partner) by means of Murabahah to fund the project which later will be sold as housing apartments subsequently the Musharakah will dissolve after selling the whole lots

Thank You

**My Answer:**

Bismillah al Rahman al Rahim

AL Hamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Sr. Mona

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

It is nice to hear from you and hope you are progressing in your Islamic bank.

If you take each part of this transaction alone, all its segments are permissible: buying the land, with the old building on it, on Musharakah 60/40 is permissible. Recording it in the name of one of the partners is also permissible with consent of the other partner. It is permissible in this Musharakah to give a higher share of the profit to the client/partner and it is also possible to put a ceiling on the share of the bank (e.g., if it reaches certain percentage of principal, the client/partner takes all extra profit)

Now, the Murabahah finance of remodeling is a little of a problem unless this combination is worded in an appropriate way because here you are creating debt on the client/partner for materials he is putting in common property and the bank/partner get its profit from this sale!

It should be either a debt on the partnership, undertaken with special permission in the partnership contract that the partner/manager is permitted to buy materials and supplies from the bank/partner knowing that the bank/partner makes profits on these sales. Then at liquidation debts are paid first and then profit calculated and principals and profit are distributed.

Or we redefine the partnership to make it on the land only not on the building whereby the client/partner owns the old building and remodels it on his own. You need then separate evaluation of each of the land and building at the time of purchase and external appraisal of the price of the land and the price of remodeled building when we liquidate the partnership so that you know the profit of each alone.

Alternatively, if the intention of putting the land in name of the bank is only protecting the investment of the bank, you can make the whole thing Murabahah and still, with authorization from the purchaser record the property in name of bank until the debt is paid up.

Wa Allahu A'alam

Wa AL Hamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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Sent: Thursday, June 05, 2008

**Question: Murabahah sale**

Dear Dr. Monzer

Assalamu Alaykum wrwb.

Jazak Allah for the reply and encouragement.

Can we have a Floating charge on the assets of the member/client as collateral?

Jazak Allah for your usual cooperation and advice.

Best Regards, Wassalam

Br. Raffick

**My Answer:**

Bismillah al Rahman al Rahim

AL Hamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Raffick

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I know what a charge is. It is a lien on a property and it is permissible to secure a debt. Does a floating charge mean that it is on all assets without any determination of what asset? If this is what it means I suggest that we make it this way: "on the existing assets that are listed below and in addition on all their replacements additions and changes in them." Assets mortgaged this way can be entrusted to the debtor herself/himself.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Al Barakah Coop

Dear Dr. Monzer

Assalamualaykumwrwb.

Alhamdulillah , there is a high demand for our new schemes- ticket & vehicle financing and challenges are coming and I need your advice on the following :

1. A member /client wants to purchase a car which he can finance partly.

The cost price of the car is \$ 20,000, the member /client has \$ 5000 and he needs a part financing of \$ 15,000 from AL Barakah on Murabahah. Is it allowed to finance the member/client in this Murabahah transaction?

2. A member/client wants to purchase a car from a vendor costing \$ 20,000. He approaches AL Barakah to finance the Murabahah. But Al Barakah has a ceiling and can finance only up to \$ 15,000. The member/client does not have cash (\$5,000) and negotiates with the vendor to pay the \$ 5,000 in installments to which the vendor agrees. Can we enter into such a transaction?

Jazak Allah for your usual cooperation and advice.

Best Regards, Wassalam, Br. Raffick

**My Answer:**

Bismillah al Rahman al Rahim

AL Hamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Raffick

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I am very glad for the progress of the Cooperative.

1. For the first question it is easy, you still buy the car and sells it at the higher price on installments, the first 5000 will be the first payment out of the sale price and the rest of payment will be equal installments. Of course, you calculate the mark up that you add to cost on the amount of 15000 only.

2. Your second question can be dealt with same way if the seller accepts to have no lien on the car (he may ask for other security from his friend) so you have the exclusive lien on it. I do not suggest that you may accept two liens on this car under all circumstances because that weakens your lien. Accordingly, you buy the car for 20000 the member comes up with 5000 as a debt on him to the seller, you exchange this debt, with consent of the seller, (you consider that debt that is transferred) for a down payment to you. And proceed to calculate installment on the basis of mark up on the remaining 15000 of the price that is deferred.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Wan

Sent: Sunday, May 18, 2008

**Question: Islamic banking practices in Malaysia**

Assalamu Alaykum Dr.

My name is Wan. I'm from Malaysia. I just want to ask what do you think about Islamic banking in Malaysia and what is your opinion on Islamic credit card (bay al-Inah)? Please reply to me as soon as possible.

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Wan

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I believe that Bay' al 'Inah is not permissible because it plainly hide Riba and I believe any practice of it is not really Islamic. It is in fact interest based transaction.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Mohamed

Sent: Sunday, February 10, 2008

**Question: facility for desired period is not offered by the Islamic bank**

Dear Dr. Monzer Kahf

Assalamu Alaykum Wa Rahmatullah Wa Barakatuh

I am from Sri Lanka and yes there are Islamic banks here but I need to get a loan where the period extend to say about 15 to 17 years so that it will affordable to live in our daily expense. Here our Islamic Bank moves a maximum of 6 years, where I can't afford to pay so much. Please advise me whether it is possible to go on commercial bank procedures. The reason why I'm buying a land is to build a small house, just at least one room, and y I don't want to move on rent is coz day by day the land value increase. Someday I think I will or may have a disability to pay such amount of rent. Since the money in hand is quite low. Allah (Jal) knows a lot, and knows my abilities and disabilities and future to.

Your concern will be much appreciated.

Thank you. Best Regards, Wa Salam.

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mohamed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

If there are Islamic banks that provide this service, it is really difficult to seek other banking financing. I suggest that you should manage your situation and accept the 6 years period, add to it some personal loans from friends and families.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Mohamed

Dear Dr. Monzer Kahf

Assalamu Alaykum Wa Rahmatullah Wa Barakatuh.

It is not difficult to seek other banking financing or lets conventional banking since the period of years extend to 15 to 16 years. Then repayment capacity per moth is low and manageable.

Please your advice.

Best Regards, Wa Salam,

Mohamed

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Mohamed

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

It is not acceptable that anyone would argue that once a service exists in a Shari'ah compliant manner, it is OK to relax a very serious prohibition like Riba for convenience of consumers. I suggest that you should manage your convenience within what is available rather than going into a Riba based contract.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Ameer

Sent: Tuesday, February 05, 2008

**Question: why Islamic banks are more expensive?**

Assalamu Alaykum,

I want to know why Islamic bank wear a title as a Shari'ah Based. One of my friend got loan from Islamic bank, if he is not able to pay the debt within 45 days. He must pay FINE. Instead of asking Interest they ask fine. Both are same.

My Question is if he cannot pay money to the bank they should extend some grace period. There are no rights to ask fine/interest which is not Islamic based. Consider example, Wine, whiskey, Beer are all related to say Alcoholic Beverage likewise interest, fine also related to say Riba in this regards. Why Islamic bank asking extra money from debtor. They have the rights to ask only ACTUAL Amount of loan. Prophet (peace and blessings be upon him) declared that the wrath of Allah is on the Riba taker, giver, writer and witnesses.

With Salaam

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Ameer,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

You are correct: If a lender charges any amount above the loan principal under the name of fine or interest, it is of course Riba. Keep in mind that any out-of-pocket cost related to delayed payment can also be charged to the borrower. Now I have two points: 1) Islamic banks do not give loans, they provide financing through sale, leasing and sharing. They are there to make money for their shareholders and depositors. They are not charitable organizations that provide loans (loans do not entitle the lender to any profit or increment). 2) Imagine that they do not charge any fine for persons who do not pay on time, what will then happen? Can you make a guess? EVERY BODY WILL NOT PAY ON TIME AND THEY WILL GO ON COLLECTING DELINQUENT DEBTS and lose money. What is the solution? Let them charge a high fine; from it they recover the actual out-of-pocket cost only, and give the remainder to charity. This is a kind of forced charity the Islamic banks use as a DETERRENT to force debtors to keep payment on time. This is permissible in Shari'ah.

Wa Allahu A'alam

Wa AL Hamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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## FATAWA ISLAMIC BANKING 2007

**Subject: Are Islamic banks charging higher rates?**

From: Barakat

Sent: Wednesday, November 07, 2007

**Question**

Alsalm Alekom wa rahmato Allah Wa Barakatoh

Dear Dr Kahf:

I am a moslem living in London and want to buy a house. I understand that there is a fatwa by Dr Karadawi to allow non Islamic mortgage if the house is to be used for living in to for trading. but I have been told that sheikh Karadawi restricted this only to the absolute emergency where there is no islamic mortgage.

There are four banks offering islamic mortgage in London, but they are more expensive than non islamic mortgage. Also I contacted them and what they told me was that they actually borrow money from the Bank of England to buy the house in their name and rent it out to the client and that the rent is based on a profit margin above ther Bank of England base rate or above LIBOR (London InterBank Offered Rate). So in reality they are a middle man between the client and a normal non islamic bank. the take a non islamic loan and charge the client for the interest rate plus an additional profit for themselves.

As I see the situation now, the islamic banks are more expensive than normal banks. and they actually purchase the money from the market i.e. non islamic loans and charge an extra fee. Plese advise, what should I do. Thank you

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Barakat

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

1. I like you to kindly notice that Islamic banks in UK and otherwise are not simply middle men . CATEGORICALLY, THEIR SOURCES OF FUNDS ARE NOT ON INTEREST AND THEY DO NOT FIVE FINANCING ON INTEREST. whatever you were told is either plain incorrect or misunderstanding or sometime out of ignorance of bank employees and others. Islamic banks get funds from shareholders, Mudarabah-based depositors and also from reassignment of properties they own that is bound to lease contracts for housing and other fixed assets and real estates. This re-assignment of properties leased to persons like you is permissible in Shari'ah because it amounts to sale of what the bank owns.

2. It is possible that an Islamic bank may have a higher rate than other conventional banks for its financing. But usually Islamic banks are within the range of other banks in their rates and charges because they live in the same market and every person does exactly.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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From: Barakat

**Question**

Dear Dr Monzer alsalamo aleikom wa rahmatu Allah wa barakatuh

Thank you very much for having the time to reply to my query but i wanted to inquire thoroughly about my personal situation. what i understood from some scholars is that fatwa Alsheikh AlKaradawy doesn't apply to Muslims who live in England as there are about four islamic bodies that do islamic home mortgage. the point is after checking with them i found out that they are charging higher rates than other conventional mortgage suppliers. to give you average figures so you can understand the situation, having a mortgage with HSBC amanah will make me pay 547000 sterling pound for the house purchased at 282500 with me keeping some cash in the bank for my personal use. However, if i paid that cash that i am intending to keep, as an offset type of conventional mortgage i will be paying the total price of the house of less than 370,000 pounds with a difference of about 170000 plus, from the islamic mortgage. as well as reducing the payment term. me and my wife donot want to go for something that has a shobhaa in sharia. we are afraid of haram and Ribba as we cannot afford a war from Allah and the prophet. we need a fatwa Is it halal to take normal mortgage if the islamic ones are of a huge difference than the normal ones or is it not, as long as islamic ones exist even if they are much more expensive Barak Allah feek wa Jazak Allah Khair

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Barakat

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

You need to compare apple with apple (with SHBC you keep some money in the bank and with the other you use this money.....). It seems you are not doing it. And with four Islamic banks I am sure there cannot be such a difference. Another point, you also know that the market of house financing does not have a universal rate all over UK, rates differ from one provider to another. When you get a quotation from someone and go for more search, you will always find some other who can beat this quotation. that is not really comparing. It becomes Haram to take conventional if the Islamic contract is within the range of the variation in the market and this range may differ for one eighth or one fourth maximum. such a variation does not create 170,000 for a house price of 282,500. Please reassess your search, rates, compare equal conditions in every thing and you will never find such differences as you thought. But if the difference is as you mentioned, I consider the Islamic as non-existing and apply the Fatwa because the Fatwa does not intend to charge Muslims higher rates. Please do your homework right and I am confident you will find one of the Islamic offers as competitive as conventional banks.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Transacting with Islamic Banking Windows**

From: Faiz through Islam on line

Sent: Wednesday, August 15, 2007

**Question**

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

Please shed me some light on transacting with 'Islamic Banking Windows' that are in operation within Interest Levying Banking system. Here in our country some RIBA based banks are introducing Islamic Financial Products and deposit accounts. Is it allowed, according to Sharia Rules to transacts with these Islamic Banking Windows for their main business is not interest free. However the Islamic Banking system is overseen by a Board comprising Muslim Theologians in the country. Jazakum Allahu Khairan for your constant help

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Faiz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

When you deal in a financing contract that is based on sale or lease basis, it is always permissible to buy on credit or lease from any person regardless of color, ethnicity and religion and of course regardless of other contracts/relationships this person may have with other entities and regardless of the bulk of the actions/transactions this person, natural or legal, may have. It is permissible to take the sale based and the lease based from conventional banks as long as you are sure that the contract between you and the bank is compatible with Shari'ah.

On the other hand, dealing on sharing basis (Musharakah or Mudarabah) is a different story. You must be sure that your the manager deals in all its transaction related to the Musharakah

or Mudarabah, in accordance with Shari'ah because in these financing transactions there is a delegation of authority. Accordingly, you may take Musharakah or Mudarabah financing from a conventional bank because you are the manager and you are sure of yourself that you will make all business in accordance with the Shari'ah. But when it comes to giving funds to the bank on Mudarabah basis (investment deposits in the bank) you have to be sure that all transactions done with your money are completely Halal. This can be assured if these transactions are supervised by a competent Shari'ah board and are contained within autonomous accounts separate from the the other conventional bank's accounts.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: The Role of the Mathahib in Islamic Banking**

From: Annas

Sent: Saturday, July 14, 2007

**Question**

Dear Amo Monzer, Assalamu Alaikum Wa Rahmatullahi Wa Barakatuh,

I hope you and your family are doing well, and that you had a safe trip back to the US since we have last talked. Further do I want to express my sincere gratitude and appreciation for the nice conversation we had on the phone back then.

While you were in Germany, I was in Saudi-Arabia (Jeddah) doing a project with the Boston Consulting Group, which was very fortunate for me alhamdulillah, because inter alia this also gave me the chance to visit the Islamic Development Bank and meet some of the scholars over there (incl. Salman Syed Ali and Sami Suwailem). I also had the possibility to meet Rafiq Al-Masri at the University in Jeddah.

As you might remember, I am currently doing some research on the market potential for Islamic financial products in Germany.

If you happen to have a couple of minutes to spare, I would be most grateful if I could again bother you with a small question which concerns the research I am currently doing:

While doing my analysis, I wondered how the different views of the different Mathahib (مذاهب) are accounted for in Islamic banking, for so far I have not come across products which are labelled as „permissibe by the Imam Malik school, but not by the school of Imam Shafii”.

My questions in this context would be: to what extent do the Mathahib play a role in the products that are on offer today? Do banks consider this when they offer Islamic products in one country or the other? That is, would Islamic financial products be different in different regions of the Islamic world according to the mathhab that is predominantly followed? Or is the main focus on providing “Sharia-compliant” solutions no matter which mathhab?

I hope that the question is not too ambiguous, and I would be most grateful if you could help me in this. At the same time, please feel free to ignore my request in case you are too busy at the moment. Further, if you feel that me calling you would be less stressful and time-consuming for you, I would be happy to call you any time you deem appropriate. Jazakumullahu Khayra Al-Jazaa’,

Wassalamu Alaikum Wa Rahmatullahi Wa Barakatuh,  
Annas

**My Answer**

Dear Br. Annas

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

First please feel free to contact me at any time, you are a brother to me but rank like my blood nephew in dearness. don't be bothered by any formalities and always give me good news about your grandpa and mother and uncle, I like to hear their good news. Please give them all my Salam,

Since we talked on the phone last I had several trips and I am now in North Germany going back home on Monday Morning!

The fact is: Mathahid do not affect Islamic finance because real differences are very small and because the OIC Fiqh Academy and the AAOIFI bring some kind of consensus into Islamic finance. The main reason for this is that there is little differences between the Schools of Fiqh in matters of Riba (Riba al Buyu' doesn't come in finance and there where you find differences)

The PRETEND is; Mathahib differences are used to justify certain inappropriate ehaviors in Islamic finance. Examples: the abuse of ""sale of debt"" and ""bay' al 'Inah"" in the hafi'i school by some Malaysians. but notice they also abuse ""bay' al Wafa' "" that is Hanafi in order to justify certain practices that are pure interest-based but given the form of permissibility! Similarly you have the abuse of ""Tawarruq"" and Bay' al 'Urbun"" that come from the hanbali is Saudi Arabia although they do not refer to the Hanbali school but they discuss within its context.

Another example is a past exercise in Iran of What the ""Imam says being the Shari'ah"" and he told them at the beginning that a charge of fixed profit on loans by the government (banks were all nationalized for non-socialist motives) is permissible. This was changed later after the new law of central bank was enacted.

Please feel free to contact me any time by email, which is much easier, by phone or any other means when it is possible.

Best Regards,

Wassalam

Monzer Kahf

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From: Annas

**Question**

Dear Amo Monzer, Assalamu Alaikum Wa Rahmatullahi Wa Barakatuh,

Thank you very much for your kind response!

Alhamdulilah both my mum and my uncle are in the best of conditions. Currently they are both in Jordan, where at present almost the whole family from my mother's side (that is, all descendants of Ali Tantawi Ra7imahu Allah) is assembled.

As to my grandfather, he too is fine alhamdulilah. I am spending a lot of time with him these days, and I will surely convey your salam to him inshallah (today)! In fact, I had told him yesterday already that I had contacted you again for some help, and he instructed me to express his sincere salam and appreciation to you the next time we talk!

Jazakumullahu khayran also for your comprehensive response, that was very helpful!

I am extremely sorry to exploit your generous offer for further help, but I would be very grateful if you could help me in another two quick questions:

The first one is: Turkish Alevites, who count as Muslims in the official government statistics, constitute approximately 15% of the “Muslim” population in Germany. I was told by some of them that Alevites do not know the prohibition of riba. To your knowledge, is that correct? I am asking this because that would have serious implications for the market potential of Islamic financial products in Germany (that is, If 15% of the population that is deemed Muslim in fact does not have any problem with dealing conventional banks even where alternatives are available).

The second one concerns another finding of my research so far: one of the major impediments to the growth of the Islamic finance (retail) industry seems to be that people (especially in non-Muslim countries) do not really know what it is all about, and what Islamic economics is supposed to be (that is the result of some empirical studies in Malaysia, Singapore, UK, and even Jordan). In Germany this problem is amplified, since there is almost no “popular” literature dealing with this subject. While there are some minor publications, they are written for professionals and not for the general public.

Therefore, I have in mind to publish a book in German which in layman language explains what it is that constitutes Islamic economics, finance and banking. To your knowledge, are there any English or Arabic books which go into that direction? In case there are proper English or Arabic books which serve this purpose, I would simply do a translation. Or else, I would do a simplification of some of the available literature.

As said, the target reader would be the average German citizen (both Muslim and Non-Muslim), who has no clue about economics and who is not able to make use of the literature that is available in English already. The text would have to really easy, very basic and interesting at the same time. The end of this whole undertaking would be to make people understand the basic concepts of Islamic economic thinking and how an Islamic bank can work without employing interest.

Jazakumullahu Khayra al-Jaza’ for all your efforts!

Annas

**My Answer:**

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Annas

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

For the first point I think it is not a real issue. The alawites don't have any special Fiqh of their own, they follow either the Jafari school or the different Mathahib of Sunnis. The point is rather that most of them are not religious and this is what they mean when they tell you that interest is not an issue for them. Otherwise you can pin them that if you call yourself Muslims then this is what Islam says regarding interest, a thing that is the same in all schools of Fiqh. To the best of my knowledge there is no statement at all in the alawite tradition to the effect that interest is permissible.

The second point is very important. I suggest that you visit the website of Prof Dr. Muhammad Nejatullah siddiqi, his writings are usually easy for public readers. Also take a look at IDB/ IRTI

publications. There are several writings that are suitable to translate or to make good reference for a new simple writing in German. I really think it is an excellent idea to write something on this issue and publish it, the market takes more than one piece of literature. Lots of Salam to your grandfather and all other members of the family.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Islamic accounting tuition**

From: Aadila

Sent: Saturday, May 12, 2007

**Question**

Dear Dr Monzer, Assalaamu'alaykum wrt wbt.

Would you mind giving me tuition on Islamic banking accounts? I saw your qualification as Chartered Accountant.

You have been with IDB and I think you would be able to give guidance to me. I am still not clear about the entries in AAOIFI book. While I am still waiting for the accounting book which will only be ready in July, I am hoping that you can guide me during this period.

On Ijara and Ijara Munthahia Bittamleek. Are both considered as operating lease except that for Ijara Munthahia Bittamleek, it ends with option to purchase? Can Ijara Munthahia Bittamleek be considered a Finance Lease like the conventional one?

I am not sure how the journal entries are for leasing. If you say ok to tuition me, I will try to send my journal entries to you for checking. I pray that you will help me Dr Monzer.

Wassalam and best regards,

Aadila

**My Answer**

Dear Sr. Aadila

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

Yes of course as much as I can with my 40 years (not updated) knowledge.

Please notice that this Ijarah Muntahiah bittamlik is confused in the AAOIFI and does not represent the reality as it is actually. IMB is a version of Financial leasing. The word financial leasing itself is also a term that has different versions too. Anyway, what is your specific question(s)?

Best Regards,

Wassalam,

Monzer Kahf

---

From: Aadila

Sent: Tuesday, May 15, 2007 7:36 AM

**Question**

Dear Dr Monzer, Wa'alaykumsalam and thanks for your willingness to help me.

I'll have to read up more on ijara muntahiah bittamlik before I can ask you about the accounting entries.

Meanwhile, I have other question concerning the transaction date and accounting posting date. If a deal is transacted yesterday say 14/5/07 and money also deposited to bank account yesterday; but the accounting entries although recorded on 14/5/07 but the computer system can only post on 15/5/07 due to downtime. Does it constitute violation of the shariah principle? My thinking is that the importance is the actual transactions done and as long as the date still recorded as 14/5/07, the system posting date should not affect the whole transaction. But I am not sure if my thoughts is correct. Please comment. Best Regards, wassalam

Aadila

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Aadila

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I don't see any violation of Shari'ah if the accounting system or its facilities are such that we record the accounting entry one day later. The date of transaction is known in its file and that is the basic reference to its date. This applies to all kinds of accounting entries whether they relate to currencies or others as long as the delay of entry is either a normal matter in the accounting system (e.g., when we make it as a system that all transactions from branches are entered next day) or a result of a malfunctioning.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Saudi Arabia banking, is there usury?**

From: Holey

Sent: Tuesday, May 08, 2007

**Question**

Greetings sir how are you.

As an ex-pat worker in Saudi Arabia, I am confused over the fact that banks and lending institutions here in the Kingdom offer loans calling them interest-free or Shariah compliant and then charge an interest rate maybe 3.5 to 5 percent to be paid back over 5 years. In addition, some banks have a Shariah- board that approves the banks Islamic Shariah program.

I want to know how is this allowed and isn't this riba or usury? Yes I understand that Islam forbids riba and allows financing and that financing should not be free. Also, I read on your webpage to a response that the banks goal is not to make money off these programs; rather, they are trying to help the society etc... (sorry for the poor paraphrase- but you get my point I hope)

But if I want to take a personal loan of 1 million riyals then I should be allowed to pay back only 1 million. Correct! If I wrong can you please EXPLAIN this concept to me and why they allow it etc. You can provide attachments in your email and evidences and proofs and also refer me to web links.

This whole concept is somewhat confusing especially since I thought the terms of interest rate means riba and apparently it doesn't mean that etc.

I need a loan for school finance and personal usage. I know of the idea that ppl partake in things based on the necessity but this idea of offering interest rates on Shariah compliant services is the norm instead of the exception of the rule. Apparently, the norm is now that Shariah-compliant programs have these personal loans with interest rates regardless of how little interest and when I call some of the banks for clarification I get no response or they can't explain it other than we have a fatawa from some Saudi based scholars approving our system. But the consensus is that riba is riba. Am I right or wrong? I know that you have answered hundreds of questions like this and I hope you don't hesitate to answer it again.

I would like to open up this dialogue with you and thanks in advance.

Can you please help me to understand this. I just want the truth and facts to allay my confusion over the matter. The aid of course comes from our Lord.

Sorry for the long email.

### **My Answer**

Dear holey,

I could not understand your question. Please be specific and ask a question if you want a clear opinion from me.

Monzer Kahf

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From: Holey

### **Question**

Sorry for the confusion. If I take a loan from a bank under a Shariah-compliant program, for example 50,000 SAR and I'm told that there's an interest rate to repay this back to the bank usually about 4 % with 36 to 60 months to repay isn't this riba? The rate is low but nevertheless it's an interest rate. Isn't this riba? Yes or No? Please explain.

Last, even if I want to buy a car on leasing or finance, for example a 2008 Toyota Camry for 80,000 SAR I'm told by the sales man that I have to pay 9% or more interest that includes (6% interest and 3% for the insurance). I understand that in financing, a company is allowed to make a profit (but the profit is called interest compounded or combined with profit making programs) is this not riba?

Can you please help explain this to me and offer me papers to look at via attachments or provide your explanations? Thank You. I hope this helps

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

### **Dear Holey**

Islamic banks do not offer "LOANS." They offer financing and you said you know that financing is not free. They buy the car for instance and sell it to you on installments and make a profit of the difference in the price. This is ok and permissible and not Riba. For literature please consult the internet including my website [www.kahf.net](http://www.kahf.net).

A car dealer may charge you interest on a loan, that is interest plain; but to my knowledge the dealership of Toyota (Abd al Latif al Jamil company) does not deal in interest, it is possible that

the employee who spoke to you does not know or expressed it wrongly or you misunderstood it. Of course if you want to pay on installment the price would be higher and the difference is not interest here again.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Islamic banking in the Netherlands**

From: Rachida

Sent: Tuesday, May 01, 2007

**Question**

Salamoe'alaikoemwarahmatullah, Dear Professor Monzer Khaf

I got your e-mail address from Miss Somia. I'm Rachida, I'm studying Arabic and Middle East studies and for my Master-thesis I'm examining the possibilities for islamic finance in Holland, especially islamic mortgages.

The reason why I send you this mail is because I have a question about a Murabaha contract related to a mortgage. Firstly in Holland the duration of a mortgage is 30 year. Because by a murabaha the selling price is definitely, it is for a buyer almost impossible to move (house), the financial institution has namely the right on the whole selling price. This means that for example if a buyer wants to sell the house in 7 years, he has to pay the full amount inclusive the mark-up, whereby an islamic mortgage in Holland will be much more expensive than an conventional one and in the most cases it will be impossible for the buyer to pay all the money and thus to move. This means an implicit move prohibition what in the Dutch law impermissible is. The murabaha contract would be therefore expound as invalid.

For this problem financial institutions are searching for solutions, one of the institutions is thinking about taking in a condition in the contract whereby the seller (the bank) is obliged to come towards the buyer. I have question marks by this solution because then the price is not definitely anymore. I'm very curious to your opinion about this. I hope you have the time to look to this and answer this question.

This is the condition they want to take in the contract:

"Might the buyer want to go over to sale of the pledge before all month terms are fulfilled, the seller is then obliged to consult with the buyer over the remaining month terms, by which the point of departure will be that the buyer will not be in a worse financial situation than when these redeem a traditional money loan."

Thank you in advance, Wa'laikoemsalam warahmatullah,

Rachida

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Rachida,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I don't see why the fuss is created. Any debt, from Murabahah or any other cause, can be settled earlier at a discount provided the amount (or percentage because a percentage reflects an amount) is not determined in the contract and the discount is not transacted by a third party (so that it becomes like discounting IOU's for cash in a bank that is Riba.

In other words, the condition that you mentioned in your query is permissible as it means that the discount shall be determined consensually on the basis that a Muslim beneficiary of finance shall not be disadvantaged in comparison to a conventional borrower.

We include such conditions in many Murabahah contracts. and it is ok.

However, to get out of the whole problem (and more important if the provider of finance is a Muslim company, for it to be able to sell its contracts at a lower than the face value so that it can replenish its funds and finance more persons) why don't you use the lease/purchase contract? that is easier!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

-----  
From: Rachida

**Question**

Dear dr. Monzer, Salamoe'alaikoemwarahmatullah wabarakatuhu,

DzaijakaAllahughairan for your very fast response and your very clear and interesting answer! I really appreciate that!

I completely agree with you that a lease/purchase contract is much easier, but also for that contract there are unfortunately some complications in the Dutch law. After a little research some financial institutions came to the conclusion that a murabaha-contract in combination with a mortgage would be the easiest to implement for a financial institution here in Holland. That's why they are looking for solutions for this form.

For the same problem that I described in my former mail another financial institution came up to two other solutions, namely: 1) To close an assurance with an other party whereby the customer is guaranteed, that if he sells the house before he redeems the full amount, that all the mark-up that he has to pay to the bank after selling the house will be paid back to him.

Or 2) An unilateral testimony from the bank that if the client wants to sell the house before he redeems the full amount that the mark-up for the coming up years will be let off.

Also here still remains the question if these two solutions fits within islamic law. What's your opinion about these? I hope I don't aggravate you with my questions.

Thank you in advance! DzaijakaAllah. Wa'laikoemsalamwarahmatullah,

Rachida

**My Answer**

Dear Sr. Rachida

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

I still think that it is much easier to solve the complications of Leasing than such closes are you mentioned in your email.

However, in Murabahah, we can put a general close of discount for payment acceleration provided we do not mention a rate, that is we can relate it to what is the practice then is similar contracts.

I remember about two years ago a gentleman from Netherland forced a "free" Fatwa from me that I am sure he used to make money (I give free Fatwa to those who use it for personal use but those who want to make money from it must also compensate me!) on such a matter!

Best Regards,  
Wassalam,  
Monzer Kahf

-----  
From: Rachida

**Question**

Asalamoe'alaikoemwarahmatullah wa barakatuhu, Dear dr. Monzer, DzaijaAllahuGhairan for your answer again. Firstly I want to apologize for taking your time. I truly understand your point (about the difference of giving fatwa for personal use and for those who want to make money with) and you are really right about that point! I must say that I was ashamed for asking you a new question again.

Please let it be clear that I really don't earn any money with this. I'm a student who's doing research for my master thesis about the possibilities to institutionalize islamic finance in Holland and at this moment I have an internship at the ministry of Finance here in Holland to collect material for my research. During my internship we have several meetings with some Dutch financial institutions that are looking for solutions to offer islamic mortgages that fits within the Dutch law. Some of the institutions came up with some solutions, but they are still not sure about the sharia-compliance. They asked me if I can ask sharia-experts if there solutions are in the right direction, before they really worked the product out, so that's why I mailed you those questions. I didn't send them your fatwa. I just told them about your opinion, but never give them the fatwa.

So I think from now on it would be better for them to contact you and make appointments about the costs of getting a fatwa etc instead of let me be a kind of intercessor. Would you agree if I give your email address to one of the financial institutions, so you can make a compromise (if they want a fatwa/fatwa's/ from you)?

Thank you in advance. Wa'laikoemsalam warahmatullah,  
Rachida

**My Answer**

Dear Sr. Rachida

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

I kind of sensed that you are not a person who is asking to make money out of it. I thought that you are either making a research or a concerned Muslimah who want to know the matter. It is good that you were cautious enough not to give them my Fatwa. Yes I will be glad to help them in finding a suitable solution that is within the law and at the same time Shari'ah compatible.

But please don't worry about your questions, go on and I will be glad to help explaining to you any thing that I can.

Best Regards,  
Wassalam,

Monzer Kahf

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**Subject: Forex transaction accounting in Islamic banks**

From: Nur

Sent: Saturday, April 28, 2007

**Question**

Dear Br. Monzer,

In a Spot FX transaction on interbank currency exchange..

Do you take the spot exchange rate on trade date or value date?

For example, Money committed to exchange on 16/4/07 for USD100 @ rate of euro, 2 days later, i.e. 18/4/07, on value date, we receive the money.

Qn: So to book the transaction, do i take the currency exchange date base on trade date on 16/4/07 or do I use the exchange rate base on 18/4/07?

If the answer is on trade date, that means, my entry would be to book USD100 @ rate of Euro using 16/4/07's spot rate on 18/4/07 (value date).

I was asked to comment whether AAOIFI FAS16 on foreign currency exchange in compliance with FRS21 of FX. on its treatment and recognition.

I have reviewed a few different Islamic bank's foreign currency policies. So far not many follows IDB's way of keeping the exchange difference on balance sheet date to a foreign exchange reserve fund in equity or balance sheet account. Most of them would charge the gain or loss in exchange to income statement. That is referring to monetary assets and liability at balance sheet date. As for transaction, most practise recognition of spot fx on date of transaction.

International Financial Reporting Standards recommend that the exchange gain or loss to be charged to Profit and Loss account. There should not be any foreign exchange reserve fund in balance sheet. (That's what my colleague told me when I told her that some banks use forex reserve fund to maintain exchange difference in equity account)

Can you please enlighten me on the treatment. Best regards and thanks. Wassalam,

Nur

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Nur

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

It is ok to kill any differences in foreign exchange in the profit and losses instead of creating a reserve for them. The IDB practice is caused by it peculiarity of holding too much assets in foreign currencies keeping in mind that its official (and of course balance sheet's) currency is the Islamic dinar (not any actual currency) that is equal to one SDR of the IMF.

For pricing: It seems to me that the principle must be the pricing of the moment of the foreign currency contract. It looks that this is also the price that is carried actually between contractors, otherwise you are contracting a price (of two days later) that you don't know at the time of the contract. what is the actual practice in banks on this when the currency contract is for the bank itself and also when it is done for a customer? can you please tell me and give me more details?

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

-----  
From: Nur

**Question**

Dear Bro Monzer, Wa'alaykummusalam Wa Rahmatullaahi Wa Barakatuh.

Thanks for your answer.

According to common practice of the bank, the transaction is booked on trade date. Thereafter, on value date, this foreign currency will be reversed on value date and settlement of fx contract at the same time. As for reporting to MAS regulators, the transaction is reported base on trade date.

Base on your answer, when we say spot prevailing rate, does it mean that we have to take the exchange rate base on trade date? 2 days later (T+2), when settlement of foreign currency, we still use the same rate as trade date but there will be an exchange difference as 2 days later rate may fluctuate and change. Therefore, derive an exchange gain or loss.

Or if the currency is in Euro, do we book it as Euro but exchange rate kick in only on value date? However, if the recording currency is in USD, then we still need to translate the Euro to USD during reporting? end result would be an exchange difference again.

Can you explain "one SDR of the IMF"? Has it to do with saudi money and international monetary fund? then how imf define sdr? Thanks and best regards, wa salamu alaykum wa rahmatullahi wa barakatuh.

Nur

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Nur,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

o you mean to say that if a customer receives or sends an amount in a foreign currency she/he does not know the price on the day of the order, the trade date? And you are going to charge her/his the unknown price of trade date+2? Is this the way foreign currency are bought and purchased? Please explain whether this is the way forex trade is carried out or this is a local requirement of Bank Negara or certain markets? I know currency trades in the US market are carried at the price of the trade day!

The SDR is a basket of major international currencies that include the Euro, GBP, Yes, Dollar and I think Swiss Franc. It is used as an accounting currency in the IMF and also in IDB under the name of Islamic dinar.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

-----  
From: Nur

### **Question**

Dear Bro. Monzer, Wa'alaykummussalam wa rahmatullaahi wa barakatuh.

Honestly, I am not too sure how the bank trade foreign currency. but from the journal entries for accounting base on foreign exchange contracts given to me, are as follows:

On trade date, eg. 23/4/07

1) Dr FX Bought, Cr Forward Exchange Position and 2) Dr Forward Exchange Position, Cr FX Sold.

On Value date, eg 25/4/07

A) Reverse entries passed on trade date:

1) Dr Forward Exchange Position, Cr FX Bought and 2) Dr FX Sold, Cr Forward Exchange Position;

B) Record settlement of FX contract

1) Dr Bank A/c, Cr Exchange Position and 2) Dr Exchange Position, Cr Bank A/c

Daily MTM on outstanding deals and/or outstanding position:

- accounting system will value outstanding deals and positions and recognize the fx gain/loss in USD.

FX Gain:

Dr Accrued Exchange P/L

Cr Exchange P/L

FX Loss:

Dr Exchange P/L

Cr Accrued Exchange P/L.

I've no work experience in bank nor how forex is done. It is very different from trading company's account. As this is dealing with money itself.

Whereas in trading company, we purchase goods at a foreign currency and we convert base on invoice date's rate. Then when we settle payment we use the settlement date's exchange rate. This banking forex is very complicated for me. Therefore, I need your help to explain.

If we say only spot fx is permissible, then my reasoning would be the forex should base on the trade date's exchange rate. I cannot rationalise the extra 2 days' entries as to why they have to record that way to reverse out the entry. Best regards wa salam

Nur

### **My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Nur,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

From your accounting explanation it seems that when the bank buys for itself, in juggling its liquidity, the settlements takes place 2 days later. If this is the way the transaction is constructed (may be because there are across border accounting procedures) then it is permissible to use the settlement date price. I am definite, it is not the way always and in all countries because I know when you buy on the internet, you just buy at that price and no

difference will come to you 2 days later, so is it when you buy from a bank or a money exchanger.

In other words, we consider the actual procedure of the transaction, if it takes place all on the trading date, it is then the trading date price, but if it takes place on the settlement date, then it is the price of the settlement date.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: recording Murabah in the boos of Islamic banks**

From: Shiraz

Sent: Tuesday, April 24, 2007

Assallamu ALaikum

**Question**

- Our Board refuses to adopt the policy of recording the murabaha on our books at the sale price but instead records at the historical price. We spoke to them and we showed them the AAOFI standard which they refuse to adopt.

Murabaha is recorded in our books at the cost price. Profit is no where but taken in when payments are received in proportion to the rate against the capital

Should they continue to refuse to adopt what do you suggest? I'm being very charitable in my attitude to them as they seem to know more than all the ulema put together,

Also we moved into our head quarters in January of 2005 as we had permission to move in and renovate from the owner. We operated from different branches as the renovations were ongoing. At the end of May 2005 we made final payment for the building and transferred title.

We depreciated the building for one month but our auditors depreciated it for 1 year. We do not believe this is correct at all as we did not have ownership at all until that payment was made we only move in to renovate. Is there any Islamic position we should know on this?

Shiraz

Managing Director

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Shiraz

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1) Indebtedness on members must be for the price of the Murabahah sale otherwise the books do not reflect reality. This is objectionable from Shari'ah point of view, from Auditing/accounting point of view and from disclosure point of view and if the Board does not accept the supervisory authority must force them. They are wrong in this point.

On the other hand, you may record on the credit side the buy price of Murabahah and put the mark up in an "unrealized profit" account which will be reduced each time a payment is done by the amount of the mark up related to the payment by transferring it to realized profit. This is

ok. Further, in the balance sheet you can subtract the balance of unrealized profit from the balance of receivable to reflect clearly the historical indebtedness. This all together may accommodate the concern of the board members about historical value.

2) For building depreciation, I think you auditor is right, the building must be depreciated for the full year because you owned it since January 05. You can revalue it after completing renovation and put the revaluation amount in a special reserve account and re-calculate the depreciation for the last 8 month according to the new value of the building. The Shari'ah position here is full disclosure. You actually had the building in your ownership since the delivery of the purchase contract and that happened in January. The title matter is merely procedural.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Islamic banking in Oman**

From: Salem

Sent: Tuesday, April 24, 2007

**Question**

Dear Dr. Kahf, Assalam Alykum wa Rahmatul-Allah wa Barakatuh

First of all, I would like to thank you for your efforts for serving Islam and Muslims across the world. I'm writing you regarding buying a house in Oman through an Islamic Bank.

We here in Oman have no Islamic banks nor Islamic transactions thru regular "commercial" banks. The CEO of the Central Bank of Oman announced recently said in a paper that the government is not planning to introduce the Islamic banking system in the country.

I've came across a financing company from the Kingdom of Bahrain that can finance buying a house for me in Oman. They work as the guarantee party for me to get a loan from the Bahrain Islamic Bank. They cannot buy the house for me in Oman but they can transfer the money of the house to my account in Oman. In order to make things ""halal"" [according to them], they buy diamond in Bahrain [worth the same amount of money of the house] on behalf of me and they again sell it to another party [The bank representative said that this transaction is monitored by their Islamic advisory committee]. He also mentioned to me that I can have the diamond and I sell it through my own way. He said that they have a fatwa that says that this is Isalmically halal. They call this transaction "Tas'heel (تاسييل) [my friend told me that is called tawaruq in Isalm]

My question is ""Is it OK for me to take this money for buying my house in Oman?"" Please note that they apply a fixed profit rate on this money over the period of the loan. Please note that this is considered as my only option to buy a house. I've been renting for about 15 years because I cannot buy (or build) a house on my own and I don't want to get a Riba loan from banks. I hope I've explained the case well. I appreciate your inputs on this matter. Assalam Alykum wa Rahmatul-Allah wa Barakatuh. Your brother,

Salem

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Salem

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

It is unfortunate that Your country is not introducing Islamic banking in Oman. I really am surprised by this position and behavior especially that the neighboring Dubai has so much of Islamic banking and so much of excess liquidity that Islamic banks would love to invest in Oman development.

Your friend is right this is called Tawarruq and each bank gives it its own sub-name. This is pure Riba hidden under a different name although we have, unfortunately, some close minded Shari'ah scholars who approve of it as it looks, on the paper, as pure sale and buy! All respected Scholars know it is Riba and do not accept it.

I suggest that you should find some other means of financing through the land developers and builders, sale on installments that is very common in all Arab countries.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Accounting questions in Islamic Banks**

From: Aadila

Sent: Saturday, April 21, 2007

**Question**

Dear Dr Kahf, Assalaamu'alaykum Wrt Wbt.

Thank you for meeting me and my family in Singapore during your last trip with the introduction of Brother Ariff. How's your family and grand children? I'd saw your family photos on your web browser. They are so beautiful. Marsha-Allah!

I have some financial question and hope you can help me. Is there an equivalent term for EBITDA in islamic finance? where it this financial tool is use to measure the credit worthiness of a company. It's earning before interest, tax, depreciation and amortization. So far there is nothing mentioned in most of the islamic banks' annual report. Can the "interest" here be term as "income" instead of "interest"?

Another question is whether there is equivalent term for interest service cover used in conventional banking for islamic bank. It is a kind of service fee i suppose.

Please keep in touch. Best Regards and do convey our salams to your wife and family.

Aadila

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Aadila

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I surely remember you and remember that dinner of Br. Ariff in the Indonesian restaurant and the nice local sweet that you gave me, every body liked it here. Please give my Salam to your husband and to Br. Ariff and his family and remind him about the proposed lecture and discussion on Riba transactions that he mentioned to me.

The first question of EBITDA: I don't know any equivalent term in Islamic banks, and I don't see a need for one because this process of assessing credit worthiness is exactly the same in Islamic banks as it is in conventional banks.

Interest Service Cove: what is it please? I did not hear of this term before. Explain it please and then we'll see what is in Islamic banks for its equivalent if any!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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From: Aadila

### **Question**

Dear Dr Monzer, Wa'alaykum mussalam.

Thank you for your reply and kind words. My family convey their salams to you too. I have relayed your message to Bro Ariff on the topic of ""riba"". He should be keeping you in touch.

Thanks for your answer to my questions too. Interest Service Cover is another ratio to measure credit worthiness. I spoke to my colleague to find out the meaning. I also told him that the way to measure should be the same irrespective of how one calls it.

According to the shariah, one cannot trade with arms. However, if the arms are restricted to government military defence use and not for terrorism or ordinary purpose, wouldn't it be permissible under an exception rule. A nation still needs to defend herself in case of war. Please comment.

My simple understanding of Murabaha is straight forward kind where a customer A go to islamic bank to say he is interested to buy X and request the bank to purchase from third party C. After acquired X from C, Bank sell X to A at cost plus markup. Contracts end. However, it seems the practical murabaha practised by the islamic bank is not that simple. Some go through brokers of buyers and brokers of sellers. It seems to me that the essence is still not truly buy and sell. But just making use of a commodity in name to trade. And there is no physical movement of commodities. The movement is only through paper evidencing the transfer of ownership. It appears to me as a gimmick. Can you tell me what other complicated manner of murabaha arrangements are there in the real Islamic banking world. Thank you and best regards,

Aadila

### **My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Aadila

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1- Financing arms trading: Shari'ah doesn't say it is prohibited. The prohibition is circumstantial because arms in today's world are used for aggression and the biggest aggressor is the American government, then comes terrorists because both use excessive power against innocent people. Most governments use weapons for aggression and weapon industry and trade in today's world is an industry against humanity. I am sure there are some weapons factories and transactions that are confined in their final use to defending civilians and people against aggression from both governmental and individual terrorism. These are of course permissible and permissible to finance. The Fatwa in this regards came in connection to trading stocks of companies in the military industry sector. These stocks are all of companies that produce weapons that are used in aggression as mentioned.

2- Murabahah: Murabahah is exactly as you described it. If it is done on the paper only and money is given to a customer and debt is recorded on him of a marked-up price, this is a fake Murabahah and it is pure RIBA. Also, the same when it is done with an asset already owned by the customer, buying it cash and selling it back deferred at a marked-up price. And also the same when we fake it under the name of Tawarruq: buying from an outsider and selling again in the market to the same broker or seller through the bank. In other words, in every case it becomes cash now for a higher amount of cash deferred it is RIBA and it is Haram. Unfortunately there are closed minded "minute" Fatawa that permits some of these fake practices as if we don't know the final result of each transaction.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Islamic banking**

From: Farhan

Sent: Friday, February 23, 2007

**Question**

I would like to know that I am working for Citibank Pakistan. For the last 3years I was working for their technology department. But the business wanted to Project manager for their technology project and I moved to Credit Policies. I thought that I would be only working on the project. But they are making me work on other things as well in which I can see read interest values and might be possible in future I might have to check and sign and give approval on them....so definitely my job will not be halal... so I am trying to make a move to some other industry.

1) I have been offered a job from Dubai Islamic bank which by their saying is purely Islamic bank so if I go there in any xyz dept will my job and salary be halal?

2) Also I have been offered a job from technology business partners but the company reputation is not good and there is a lot of politics

So if I get to know that my dubai Islamic bank job would be 100 % halal I could join in there can you please help me sort this issue. As I am willing to leave asap and asking for ALLAH's mery and forgiveness.

Is Islamic banking a step towards Islamic banking? Is it halal? Is it different then conventional banking? Regards,

Farhan

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Farhan

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Of course Islamic banking is Islamic and of course working in the Dubai Islamic Bank is Halal and the Salary is Halal. Don't be fouled by antagonistic propaganda! On the other hand, your work in credit department if it requires you to sign interest-based contracts is not permissible in Shari'ah.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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From: Farhan

**Question**

Assalam u Alikum, and Walikum Assalams Wa Rahmatullahi Wa Barakatuh, my brother Monzer thank you for your reply. Sir I have a few query I may sound to you a bit rational but please do not mind.

My query to you is that I have been to your websites and several other websites and there it is said that there are many jobs in conventional banking which are halal as you are not the signer, or witness of interest. I cannot understand this point. If I am working in a consumer bank where the main way of doing business is giving loan or selling products on loans etc then how can my job even of a mis can be halal when I know that the work I am doing is in a way related to interest and that due to my work the one(person) will sign the interest contract? Or even lets say that the IT people job in conventional banking is halal, don't you think that IT is the backbone of a bank and without this nothing would happen like interest deals etc?

And throughout your website I only saw at one place written that one's job in a conventional bank in which he is not directly link with interest is halal but he should leave that job asap, then by this do you mean that even that job in a way is not halal?

I have heard from my friend that he heard in Dr Zakir naik's program that there is a hadith I tried to search that hadith myself but I couldn't so I am asking in my own words may ALLAH forgive me if I write anything wrong or miss communicate to you, but wot I got to know I am asking you that if a business is 70% involved in interest related work then in that place everything is haram something like this do you have any idea? Is there any such hadith?

Regards,

Farhan

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Farhan

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Your question has more than one facet:

1. We need to distinguish between what is prohibited and what is not prohibited. For what is not prohibited I usually use the term permissible (not Halal) and if sometimes I used Halal to mean permissible I was not then accurate. What is prohibited both by the letter and spirit of the texts themselves and there is no need to expand on the circle of prohibition from our minds. For instance, we have the prohibition of alcohol for drinking. The Prophet. pbuh, is reported in an authentic Hadith to have Said: Ten things are prohibited in regard to khamr... and he counted serving it carrying it transporting it brewing it drinking it, etc. For the Hog all the text we have relates to eating it. On the other hand for Riba all texts refer to four functions: taking, giving, writing and witnessing. why should we expand these prohibition and make life difficult and sometimes full of hardship? In fact yes, you can use the hide of a hog for shoes and for floor mats. The issue of whether it is purified (from being Najis) by tanning is disputed but all that it implies is not to use it for prayer! The same applies to Riba let us restrict the prohibition to what is given in the text. Besides, look at the function itself, say if you work as a teller in a bank, what you do is itself permissible doesn't have any ingredient of Haram and it is not of your business what other people (the one you take cash from and the one you give cash to) have as relationships between them.

2. We need to distinguish between permissibility and goodness, between drawing the line that divide areas into permissible and not permissible and what is better or what is the implication of Taqwa. Each one of us is encouraged and urged to do the best, but the Fatwa is to do what is obligatory and avoid what is not permissible. Of course jobs differ, a black smith who pollutes the area with bad and unhealthy smell is not like a perfume seller who spread nice aroma (This is an example given by the Prophet, pbuh). In this regard teaching Qur'an is certainly not like working in IT in a conventional bank. The latter, no doubt, helps the Riba dealers and the former spread the Divine and glorious words. In other words, while I don't dare say that working in IT in a conventional bank is not permissible, I wouldn't accept it to my dear ones. This is a different issue than the Fatwa. In Fatwa you go up to the dividing line. Certainly jobs have ranks from the point of view of the reward they imply (of course in addition to the reward of earning the livelihood of yourself and your family). But you can't expect all people to go for the Taqwa and you have to be clear on the Fatwa that draws the dividing line only. This is the distinction between recommendation to a beloved one and the Fatwa.

3. Working in Islamic banks is definitely more rewarding because even when you don't write the Halal contracts you are supporting and promoting them. This is incomparable with working in conventional banks because there you support the Riba as you said.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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From: Farhan

**Question**

Walikum as salams.

Brother, I didn't understand much of your text but I'll be asking my elders to make me understand, the only reason why I am asking you these questions is not because of I being hypocrite or anything but tomorrow when we all stand in front of ALLAH on the judgment day and when HE asks that we in HIS name opened ways of earning interest in the name OF ALLAH and because of us we misguided millions and just think what punishment will we get just because of the reason that we mis-guided the UMMAH in the name of ISLAMIC banking. I know QURAN has said yes to KARobar and no to riba..... but everywhere people say in conventional it is interest and in islamic banking it is rent..... so how to guide them or make them understand that there is a lot of difference.

Also I have read in some place that the rules and regulation of shariah for Islamic banking are very strict and are not fully applicable at this time so shariah has given some sort of relaxation on these rules/regulations do you have any idea on this?

I know today's aalim or mufti don't like to have such of discussion once they say yes or no to something then they wouldn't like the person asking question to discuss that further but I have to because tomorrow when I join ISLAMIC banking INSHALLAH (whenever) then I have a responsibility not only to perform my job for that Islamic bank but also guide the ummah to correct path..... which we even do in other topics/contents of life.....

WE all know that conventional banking, loans, etc gambling etc are all haram in ISLAM or in many other religions as well.... By your text you are trying to SAY that QURAN should have spoon feeded us by saying clearly everything when you gave the example of a cashier. But don't you think that once in a blue moon there would be a customer coming to give him when submitting his cash, he could ask the cashier what rates of profit or what interest or profit will you give me on my balance or anything...so he will be telling that customer that our bank will give this much profit/interest to you etc? even the same could happened with any person not involve in interest but working for a interest related company either in a gathering, traveling etc people may ask him/her and that time he is promoting interest isn't he???

I hope you don't mind my questions and discussion but believe/trust me this is all to make sure that we don't dare make ALLAH angry and may ALLAH forgive all our sins... Regards, Farhan

**My Answer**

Dear Br. Farhan

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

I do mind. I think you are mixing up issues and you need to read more or attend some courses and training sessions on Islamic banking and finance. The difference is we, InShaAllah fear Allah with knowledge to distinguish between what is permissible and what is not and you want to fear Him with ignorance!

Best Regards,

Wassalam,

Monzer Kahf

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From: Farhan

Walikum as salams,

My apologies that I hurt your feelings but believe me I didn't had any intentions of doing it for a reason, I myself am very much confused. One small question if you don't mind what it means by a complete Islamic bank which follows/complies with Islamic banking and the other which might not be fully compliant are they both halal with reference to shariah? Regards,  
Farhan

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. FARHAN

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I accept your apology. The answer to your question is quite simple. The Shari'ah-compliant transaction, division, action or what not in a conventional bank is Halal and normally all transactions, divisions and actions of an Islamic bank are usually screened by Shari'ah advisors and most likely they are all Halal. Yet an Islamic bank's management may make some mistakes or adopt a controversial opinion but usually these things are non-intentional and corrected once they are realized.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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## FATAWA ISLAMIC BANKING 2006

**Subject: Taking a Monthly Fixed Amount From the Bank on Deposit**

From: Salman through Islam on line

Sent: Sunday, October 29, 2006

**Question**

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

First of all, I would like to define my situation and then go for the question. My name is Salman. I was born in Pakistan in 1980 but I lived in Saudi Arabia for 17 years and spent my childhood there with my family. We came back to Pakistan in 1998 after my father took retirement. My father brought all of his earnings with him. He had the amount in US dollars. He deposited them in a bank in Pakistan. He never went for interest. He always withdrew some dollars from his account and converted in Pak Rupees according to the rates by the State Bank which fluctuate. He didn't have any job or business in Pakistan. He was old and sick (He was diabetic). He had worked in Saudi Arabia for nearly 30 years. So this was his retirement period. Things went the same for 7 years. He withdrew the dollars from his non-interest based account and it was converted in Pak Rupees for spending. After his death, the court decided to distribute the amount according to Shari'ah among us. It was distributed among my mother, 3 sisters and me and in Pak Rupees. At the time of death of my father, we (brother and sisters) were still in

school or colleges. My mother was treated for cancer in 2004 and the process continued through 2005 too. My father didn't worry for himself. He tried his best. But ALLAH had something else for him. He passed away on 20th Ramadan, 1426 corresponding to 25th of October, 2005. I was unaware of the workings of banks and institutions in Pakistan since I spend my childhood in Saudi Arabia. I never went to any bank when my father was alive. My cousin helped us to put that money in a scheme in National Saving Centre of Pakistan which gives us a monthly fixed amount for living since he knew that we had no jobs or other modes for living. I completed my education in early 2006 but I am still jobless! I have responsibilities over my shoulder. I have 3 sisters whose marriages are my responsibility and a sick mother who had Cancer. What am I supposed to do? Is this amount which I take now from the bank is permitted for me and my family? I have no where else to go. I can't take any risk since I have no experience of doing any kind of business. Mostly the people around us are greedy. I can't trust them for any kind of business. My father never trusted such people so that's why he never invested his earnings in Pakistan. What should I do? I want to be a good Muslim. I have read about Riba now and it worries me. I plan to take out all amounts to free it from interest if I get a descent job that would allow me to support my 3 sisters, their education and marriages and my mother. Even my cousin who helped us out is a student in a university. He and his mother are living the same way as we are now. His father died 2 years ago. I am 26 now and I am not married. Even though I have done MBA? Marketing, I remain jobless. My Résumé?s are everywhere but nobody has called me so far. And if anybody calls, they offer so much less that I can hardly spend it on my family. I worry for my sisters and mother. Sometimes I feel that I will not be forgiven. I am telling you the truth. I can't trust anyone here. Considering these facts, please tell me what should I do? May ALLAH show us the right path. Aameen! azakum Allahu Khairan for your constant help

### **My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Salman,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

What you should do is simple and straight forward. You are MaShaAllah a young man, religious and keen to live as a good Muslim. Please do the following:

1. Have trust in God, He will always help you and be with you. Be sure that you will get a good job keep searching and going for interviews
2. Always preserve your prayers on time and keep your Du'aa live on your tongue and in your heart
3. Be kind to your mother and sisters and help them always all the time and to the best of your effort
4. In Pakistan there are several Islamic banks some of them are more than ten years old, change your accounts, for all of you to an Islamic bank and put them in Mudarabah deposit, the income you get from it is HALAL. Theses investments are safe like the present bank or center.
5. Calculate the amount of interest that is given by the center since the beginning of the deposits and give away this amount to a Muslim charity that helps the poor and needy. Does

it give interest or what? I am not sure. If it is interest, it is Haram certainly and you don't want to eat Haram. If it is not interest, please check what is it?

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Converting a Personal Debt into a Shari`ah Complaint Loan**

From: Sr. Jannah through Islam on line

Sent: Wednesday, October 04, 2006

**Question**

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh, Mubarak Ramadan. I am a convert to Islam and I have found Islamic loans to mortgage a house or to buy a car, but I am wondering if there is an Islamic consolidation loan for personal debt? Is there a way for those who convert to Islam to convert their personal debt into a Shari`ah compliant loan? Thank you. Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Jannah,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

On personal level I doubt that you can find it in the USA, but the methodology is there and it is applied in Islamic banks in the Middle East and South East Asia (because of the very close similarity to interest, most scholars, including me go along with the view that restricts this methodology to only converting interest-based loans into Islamic in a case like yours: the borrower did not pay attention to the prohibition and then wants to repent and change into Islamic way of finance). It consists of selling an asset for cash to the Islamic bank and lease/purchase it back on a long term contract.

Otherwise, there are several approaches of converting business loans into Islamic financing that I, and most scholars too, have no reservation on but explaining them requires a more professional setting and that is outside this Fatwa forum.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Placing Money in a Savings Account to Have a Chance of Taking a Prize**

From: Bashir through Islam on line

Sent: Tuesday, October 03, 2006

**Question**

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

I have been approached by a number of Muslims concerning the following issue. We have a bank in South Africa offering the following Savings Policy: A client can place money in a savings account on a monthly basis. The minimum amount is 100 Rand. Every time he puts money in that account, he stands a chance of winning a Million Rand or a lesser prize. The more he puts in his account, the greater his chances of winning, (e.g. 200 or 300 rands). The money he puts in his account stays his and he never loses it but it has to stay in his account for a fixed period.

Could you please supply me with a Shari'ah Ruling on this issue since many Muslims are interested in it? Shukran Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Basheir,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

There is a thin difference between marketing promotions that take the form of prizes and interest that is presented in the form of prizes. Promotional prizes are given for accounts that are needed for other reasons such as current accounts. People open current accounts in conventional banks for well known reasons of convenience and some banks announce prizes from time to time to encourage people to go to this bank instead of the others, this kind of prizes are permissible and some Islamic banks practice it with the approval of their Shari'ah boards. Saving accounts are normally opened to get interest. Having such an account unnecessarily is obviously non-advisable and its contract is an interest-based contract. Suppose such a saving account does not have interest but instead it has prizes as mentioned in the question. These prizes represent the interest that is given. Within this understanding the OIC Fiqh Academy resolved that "Bonds with prizes and no interest" are considered interest-based and these Prize bonds are as prohibited as conventional interest bonds. There is no difference between a prize account and a prize bond, they both are interest-based and therefore prohibited.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: High cost of finance in Islamic banks and Zakah**

From: Ahmed

Sent: Monday, August 28, 2006

**Question**

Dear Sir Assalam o Alaikum

I am indeed thankful that you always take time to reply my emails. I have gone through your fatwas available on the website yet I have a question of similar nature. The question is old about interest but the context and concerns are new. The situation is as under:

I want to invest some money so that I can have some monthly return and I can meet certain fixed expenditures like children fees etc. The conventional banks give good %age return which

is all Riba and Haram as I am committed to follow this. The Islamic banking is becoming popular in Pakistan with fatawas of Halal from renowned scholars. Now I quote one example from a ..... bank in Pakistan which runs various Halal deposit schemes based on Mudarabah. The confusing think is that they ask for 7 years deposit to earn good profit equivalent to prevailing interest rate i.e. 10+%. The lesser the deposit period lower is the profit. Sir I know it is not good to ask you to visit their website but don't you think this is also exploitation. Should I invest in this scheme or not?

My second question is: If I put some money in bank in the name of my child now age 3 years, I will also be the legal caretaker till her turning to 18. I will not take any money out of it. What will be the fatawa regarding Zakah in this case. Do I need to pay Zakah on this as well or when the child grow to puberty or 18 (whichever is valid for paying Zakah) will pay herself? In the later case she needs to pay till that date or for all previous years. I will be thankful to your answers. Wassalam

Ahmed

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Ahmed

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1. You are right. This is exploitation!. It is very unfortunate that Islamic banks very often exercise their monopolistic power on their captive clientele! Yet, this is life! Please make the best of it... May be the more competition we have between Islamic banks the lesser the exploitation will be. Let us pray for the better and for the Islamic bankers to be guided to avoid exploitation and monopolistic behavior!
2. Zakah is due on the property of a child. This is why the Prophet, pbuh, recommended that the guardian must invest the minor' properties so that it would not be wiped out because of the continuous payment of Zakah year after year. You are required to pay it from your daughter's property or you may donate it from your own, it is equally permissible. If it is not paid regularly by the guardian, it has to be paid by the child immediately once she takes charge of the property in arrear for all past years, if she does that there will be no sin on her, otherwise delaying it is sinful.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Auto Financing through Murabahah**

From: Rifai

Sent: Thursday, August 24, 2006

**Question**

Dear Dr Kahf,

I want to buy a car and I don't have the money to finance it. I want to get a loan through Dubai Islamic Bank. Can you advise me whether the method they are following is of Shari'ah compliant. i.e. I first go to a dealer and select the car of my choice and then the I tell the bank the car I want. The bank will buy the car and sell it to me at 3.99% profit rate per annum. If I want to pay it over five year period then they'll multiply the profit rate for 5 years and arrive at the total price which I have to pay in 60 monthly installments. Is this is a Shari'ah compliant method? Jazakallhhairan.

Rifai

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa

Ashabihi Ajma'in

Dear Br. Rifai,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Yes, this is of course permissible. For your info, the contract was reviewed by the Shari'ah board of the DIB and it has a very respected group of Shari'ah scholars.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Islam's Stance on Lariba**

From: Mohammed through Islam on line

Sent: Monday, August 21, 2006

**Question**

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

Can you please give me your opinion about LARIBA. It is a financial institution in the United States for financing residential and business properties. They could be accessed at lariba.com.

They say their model is based on Islamic concept of Loan free interest and rental but nobody here in the US was able to tell me a frank straightforward opinion about their method. Thank you. Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Mohammed

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

We don't give personal opinions or Fatwa on persons or entities. The criteria for Islamic finance are: 1) the contract, in contrast to marketing materials, must say either Ijarah and rent or buy and sale with profit; and 2) the contract must have been reviewed by as Shari'ah specialist whom you trust. If these two conditions are satisfied, ask your heart only, if you need any

further help, please send me a copy of the proposed contract and I can review it for you. Finally if you are the son of Dr. Abd al Mannan, please give him my Salam.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Investment Deposits in Islamic banks**

From: suzanne

Sent: Sunday, August 20, 2006

**Question**

asalamu alaikum,

I found your e-mail on the Islamonline website. I am aware that you have a solid education and experience in Islamic financing, hence the reason for me contact you.

alhamdulillah Allah has bless me with extra money which I would like to take care of in a Halal way. I currently have a bank account, but it collects a small amount of interest...maybe \$0.04 to \$0.10 a month. With regards to the Shari'ah do I find a bank that can give me 0% or can I keep the account which I have and spend the interest earned for the poor and needy? I have received a fatwa that says it is permissible to take the interest and give it away to the poor...but I do not feel that this is correct. What is the opinion of the scholars. jazak Allahu khairan

Suzanne

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Suzanne

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

The Fatwa you received is correct but it applies to the case where you have to deposit in a conventional bank not to cases when you have a choice. \

There are many Islamic banks in the world, all of them accept deposits on profit sharing basis and they use their funds while they avoid interest transactions, they all give a positive profit that ranges between 2 and 5%. Please jump on the Internet and find one that is suitable to you.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Financing House Purchase from Islamic Banks**

From: Anduena through Islam on line

Sent: Thursday, August 03, 2006

**Question**

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

I and my husband are Muslims. We have a home which is half finished. That means all the 4 floors have been founded, however still the walls and the rest are NOT finished. Therefore, except our flats (one flat for us and another for my parents in-law) in which we live the rest of the house area remains unconstructed because of lack of further capital. We would like to finish it and give it on rent because it only needs little investment now to be brought to an end compared to the big investment done up to now. However, we do not have more money, and we would like to approach a bank in Albania. Can you suggest a Halal way to approach for a loan? There is only one bank with Muslim capital (Bahrain) in Albania, however the Albanian laws do not permit 100% free of interest loans and we are still afraid to go for it. On the other hand, friends have helped us a lot up to now, and there is no way we can approach our friends for free loans. Therefore, we can only approach some financial institutions. Please suggest. Best wishes, Anduena

Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Anduena

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

To the best of my knowledge there is an Islamic bank in Albania, it may be small, I don't remember its name now. What you need to realize is: Islamic financing does not mean loan without interest. Islamic financing means providing funds on sale or lease or partnership basis (in contrast with loans) and getting certain return. This means that Islamic financing can work under laws that regulate loans because Islamic financing gives the fund provider a return.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: HSBC Amanah Personal Loan**

From: Rifai

Sent: Thursday, June 08, 2006

**Question**

Dear Dr Kahf, Asslamu Alikum

I want to take loan from HSBC but through Amanah Personal Loan Method which the bank offers. the bank says it's Shari'ah compliant and approved by their Shari'ah committee. Is Amanah banking in UAE is Shari'ah compliant?

They say they buy copper for the money we have requested and sell the copper and then what ever the amount/profit with that they give it as a loan. These are some of the terms: Competitive Murabahah profit rates, Zero down payment, No early settlement fee.

This is their Shari'ah supervisory committee:

[http://www.hsbcamanah.com/hsbc/amanah\\_about/Shari'ah-supervision](http://www.hsbcamanah.com/hsbc/amanah_about/Shari'ah-supervision)

<[http://www.hsbcamanah.com/hsbc/amanah\\_about/Shari'ah-supervision](http://www.hsbcamanah.com/hsbc/amanah_about/Shari'ah-supervision)>

Jazakllah

Rifai

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Rifai,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

This is exactly what is known as Tawarruq. The majority of Shari'ah scholars, including me, strongly disapprove it. It is even worse than plain interest because it adds a little cost. Some scholars accept it and those are the ones who work with HSBC, they are the same group that work with almost all Islamic banks that practice this new version of Riba.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Question Establishing Islamic Banks**

From: Abiyu

Sent: Wednesday, May 03, 2006

**Question**

Dear Dr, Assalamaleykum waRahmatulah waBarakatuh.

1.From your experience what are the major legal requirements that Islamic banks cannot fulfill under conventional banking laws when they apply for licence in non Muslim countries? Identification of such legal impediments is helpful as it enables me to recommend for possible legal amendment to accomodate Islamic banks under Ethiopian Laws.

2.In case a dispute arises between Islamic banks, clients, and entrepreneurs, can ordinary courts handle such cases?

3.Most Islamic bank assets are tied up in joint venture. Then how can they fulfill liquidity requirement?

4.Uder Islamic law, it is said that profit is justified by risk. Based on this principle Islamic banks don't guarantee saving and investment accounts. In my opinion this discourages depositors. What is the source of this principle? The Qur'an or the Hadith?

5.In what kinds of direct investment can Islamic banks directly involve?

Wassalam

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Abiyu

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1. The most important impediment is that may banking laws are interpreted to prevent banks from buying commodities/estates. Islamic banks function essentially on buying and

selling/leasing. Also laws in many countries (e.g., Germany is not one of them) do not permit banks to be share holders in companies and sit on their board of directors. Islamic banks needs to do this through Musharakah and a little of Mudarabah. Same laws are interpreted liberally in some countries. For instance, the USA Controller of Currency interprets Murabahah and Ijarah as normal banking practices.

2. Some laws require banks to pay positive interest to time deposits and to guarantee their principals. This is the case in the USA and UK. Investment Mudarabah deposits can neither be guaranteed nor a positive return can be given on them.
3. Some laws have sales tax and they consider the buying and selling in Murabahah subject to tax twice.
4. Disputes are normally solved through arbitration that is pre-agreed on in the contract between the Islamic bank and a customer. Consensual arbitration is usually upheld in courts. But obviously if the contract fails to appoint appropriate arbitrators the matter finally goes to secular courts! Some times they uphold the Islamic nature of the contract but very often they do not!
5. It is incorrect to think that ""most Islamic banks assets are tied in joint ventures"" there is no scientific or empirical evidence to support it. The statistical fact is that most of Islamic banks' assets are Murabahah and Ijarah debts, very similar to conventional banks. They also have usually excess liquidity (empirical evidence supports this). They have good tools for liquidity management.
6. It is incorrect to state that profit is justified by risk taking. Rather profit is justified by ownership of real assets that is liable to produce increments. All such assets have also another characteristic, that is they involve risk. Hence risk is there but not as a justification of profit. The rule is: if you own a property you are entitled to its increments and liable to its decreases. This is based on the principle of ownership that is in Islam and in all other legal systems. It is more obvious than it needs a specific verse or Hadith.
7. This risk is minimal and Islamic banks are heavily regulated, this gives confidence to depositors. Empirically, Islamic banks never suffer from shortage of time deposits, they also have current deposits (checking accounts deposits that do not give return).
8. We like to see Islamic banks venture a little in direct investment, within restricted limits and on request from well-established partners.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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## FATAWA ISLAMIC BANKING 2005

**SUBJECT: bank's interest**

From: lodhi

Sent: Tuesday, October 18, 2005

## Question

Assalam Alikum,

Thank you for your answer, I would like to have clarification on Riba, is Riba/Interest is same as what it was used to be and what are the arguments of the scholars you are mentioning who would give a view in favor of taking the staff loan.

What is your view on the current environment of interest that we are living in, its prevalence in all walk of life and working for a commercial bank.

Your answers will be beneficial and I will be looking forward.

Best regards,

## My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Lodhi ,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

- 1) Yes, interest that is practiced by conventional banks today is the same, in its nature, as was practiced at the time of the Prophet, pbuh. Riba is an increment in a loan or debt; this is exactly the banking interest today.
- 2) Although in the West interest is dominant in banks, it is not in ""all walks of life."" it is bad or rather too bad! And it has no scientific justification (at least as J. M. Keynes argued) if not the argument offered by all Muslim scholars.
- 3) In a country like Pakistan, there are several Islamic banks and any Muslim has the choice.
- 4) I never said that there are Muslim scholars who "are in favor of a staff interest-based loan" I said: "It seems that if the inflation rate is really equal or higher than the charged rate of interest, we may find an excuse in the idea of indexation that is disputed and some scholars argue for its permissibility." The issue of indexation is different from charging interest. Some scholars argue that when there is high inflation, the amount of loans may be increased by the inflation rate to keep its real value constant. This is neither, according to them interest, nor interest-based loans because we only keep the real value of the loan. This is a minority among Muslim Scholars but the Majority, including a decision by the OIC Fiqh Academy such an increment, although it is done not by a prior agreement to charge Riba (interest) but by raising the amount of a loan by the rate of inflation at the end of each period, is also Riba and is prohibited.
- 5) The opinion on interest-based banks is that they are Haram and a Muslim must not establish such a bank. In countries that have no Islamic banks, it is permissible to deposit and have other transactions like letter of credit, etc. with them provided that one does not deal on interest-basis with these banks. But interest-based deposits and other interest-based transactions with them are Haram.
- 6) Working in such a bank is not Haram in order to avoid placing hardship on people like your kind self. But a Muslim who works in such a bank must not do a thing of the kind or writing, signing, approving or be a witness to any interest-based transaction. (e.g., working in the IT dept is permissible but in the loan department is not). Yet, this is certainly not the best job in the world, it is no doubt a help to the Riba-based transactions. (For instance, I advised my son not to take such a job and he did not).

Wa Allahu A'lam  
Wa Alhamdu li Allah Rabb al 'Alamin  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**SUBJECT: Deposit with fixed return**

From: Islam on Line

Sent: Monday, June 20, 2005

Name of Questioner Muhammad Country of Residence Malaysia

**Question**

Assalamualaikum, My question is concerning the loan I have taken. I have taken a loan of 15000 Malaysian ringgit to be invested. I have no doubt about the investment, but I do have doubt regarding the loan itself. I calculated that at the end of the loan period, I have to pay 254 Malaysian ringgit per month for 6 years, which in total I would be paying a total of 18288 Malaysian ringgit. What I have doubt is on the extra 3288 Malaysian Ringgit that I am paying. Is it considered to be Riba? Before signing the contract I was informed that the loan I was taking is under the Islamic banking of Malaysia and the loan is called "Wadiah". And the extra 3288 Malaysian Ringgit to be the profit or something. And since Malaysia is considered to be an Islamic country and they have approved it as Islamic banking and loan I signed the contract. What is your and the scholars view on this. I hope your answer relieves my doubt in this. If it is Haram in anyway, can you please advise me on the steps to be taken. Jazakallahukhairan Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Muhammad,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I am not fully aware of this Wadiah program, please send me details of it. If it is what is called reverse Murabahah that is practiced by certain banks in Malaysia as an Islamic fixed return deposit, I consider it permissible provided the bank uses the goods purchased from the client for its own but if the goods make only a vehicle to a loan with increment, this kind of contract, is in my opinion, not permissible and only phony even if it is pictured as an Islamic contract. Please send me more info on your specific contract.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Opening a Bank Account in a Non-Islamic Bank**

From: Islam on Line

Sent: Sunday, June 12, 2005

Name Rami Education country of Origin Egypt

**Question**

Alsalamo Alaykom, I have 2 questions regarding banking. 1-Is it Halal to open an account with an Islamic branch of a non Islamic bank. I mean the bank is a usury bank but it has an Islamic branch. Given that we have pure Islamic banks in Egypt but their service is very bad and they are far from me. 2- I have a visa card from a usury bank and I really need it to buy books online for my studies. I will not be able to issue a visa with an Islamic bank. I pay a fixed annual fees but I never pay interest as I always refund the amount within the given deadlines. But to be honest only 2 times in 4 years of using it I was not able to pay the amount at time and I paid interest on few days but I was not intending to do that I just was not available in Egypt to pay the amount. I failed to open a checking or saving account with the bank to direct debit the amount due at maturity because they have requirements which I cannot meet. Is it Halal to keep this visa or should I cancel it? Thank you,  
Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Rami,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1. Islamic Branches of conventional banks are usually autonomous in their account, they have independent accounts and closing accounts within the bank itself. It is permissible to have checking accounts with these branches and if they have autonomy it is also permissible to have Mudarabah (investment) accounts too.

2. Obtaining a credit card from an interest-based bank is permissible. The annual fee is permissible too. Using it is conditional on the intent and ability to pay within the grace period. Using it without such an intension or ability is equal to opting for Riba and invoking the Riba clause in the contract. (Issuing it by the bank with the optional Riba clause is certainly prohibited). If you use it without incurring any Riba, it is not Haram to sign its contract (because it gives you the option to go Riba-wise or non-Riba wise) and to use it.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Lease deal with Islamic banks**

From: saqib

Sent: Thursday, May 19, 2005

**Question**

Assalam o Alikum

Sir I have been your site <http://monzer.kahf.com> and very glad to see field of expertise, I love to learn about Islam. So please help me out with the will of Allah in a very common case.

Is car leasing valid in Islam. I am not discussing the issues related to car leasing. I know you have better knowledge. Just explain me the matter in your opinion.  
on the other hand I have studied a lot about it. But In vain, couldn't achieve any conclusion.  
What is theme of Islamic banking, and their car leasing policies  
Saqib

**My Answer**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Saqib,  
Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

The principle of car leasing is permissible in Islam. Some car leasing companies may include conditions that are not compatible with the Islamic law. Therefore, we need to look at a specific contract and see that it is compatible with Shari'ah. If a contract is offered by an Islamic bank that has a Shari'ah committee that reviews its contracts while it consists of knowledgeable persons, you should feel comfortable with such a contract.

Wa Allahu A'lam  
Wa Alhamdu li Allah Rabb al 'Alamin  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**SUBJECT: Interest Free Mortgages**

From: Islam on Line  
Sent: Wednesday, May 04, 2005  
Name of Questioner Shazia                      ountry of Residence    United Kingdom

**Question**

Asalam-alaikum My question for today is about the intrest free mortgages which the Islamic banks in Britain are allowing Muslim to get these mortgages are these mortgages Halal or are they Haram becoz in my view they have only changed the name of intrest into the name of ajarh other wise they are charging the same rate as the bank of england please explain it in detail becoz I want a mortgage that is Islamic if such thing exist wassalm .

Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Sr. Shazia,  
Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Mortgages offered by Islamic banks are permissible according to Shari'ah. Financing is permissible in Islam while interest is prohibited. Interest is an increment in a loan. Financing may be done on the basis of a sale contract or Ijarah contract. In Ijarah the financier owns the property and collect rentals on the part it owns while also offers to sell its share in the property on installments to the occupant. There is nothing forbidden in this, especially when the

contract itself is reviewed by respected Shari'ah experts as what Islamic banks usually do. The same thing about sale financing which is usually called Murabahah. The bank purchases with you the property and sells you its share in it on installments at a higher price. This sale with a higher price is permissible as it is included in the implication of the text of the Qur'an itself (2:279).

You need to notice that the Shari'ah prohibits increments in loans but does not prohibit financing itself. Therefore, once financing is done by means of sale and Ijarah, it becomes permissible. The problem arises from similarities of both approaches in house financing. But to understand the purpose of the prohibition, you really need to look at cases of dissimilarities such as debts rescheduling or debts discounting.

For more details I suggest that you take a look at other Fatwas on Islam on line and on my own website [www.kahf.net](http://www.kahf.net)

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Mutual Funds offered by Islamic Banks**

From: Irfan

Sent: Friday, April 22, 2005

**Question**

Assaalam Alai Kum,

I am an Indian Muslim working in Gulf. I want to know about the investment in mutual funds of some major companies (like tata, reliance etc).While refer to their brochures its mentioned there that 70% of cash investment they invest & 30% will be kept as liquid cash/debit. It is permissible for Muslims 1) to invest in such mutual funds 2)If answer is no for Question 1, can we utilize 70% of profit only & 30% to be given as interest .

3) If answer is no to Question 1 & 2 , where NRI Muslims can invest (as fixed deposits is totally unacceptable for Muslims), Normally most of NRI's are having such problems, if they will investment with their relatives/friends it will end in a nightmare resulting loss in money as well as friends/relatives, if we invest in properties there no guarantee while we are here who capture your property and then there will never ending story of courts/lawyers.

In the light of kindly advise me for safe and Islamic investment procedures and institution in India (if you know)

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Irfan,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Every country of the gulf has several funds that are permissible to non residents and are run according with the Islamic methodology. If you did not find them, please check with the local management of Islamic banks where you are located. With this I think it is not permissible to

invest in funds that have high percentage of banking and other non permissible stocks. You also have the possibility of investing in your own country without relying on friends and relatives.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT Putting Money in a Bank**

From: Islam on Line

Sent: Tuesday, April 19, 2005

Name of Questioner Khadija

country of Residence United Kingdom

**Question**

Salaam Sheikh, May Allah bless you for this wonderful website. I have some questions that I would like to ask. Is it haraam if I put my money in a bank, which uses my money for business then depending on whatever money it makes, they give me a percentage which is not solid? I heard that if the percentage they give is solid e.g. always getting 9% of what the bank makes then this is haraam, if not, then this is Halal.

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Khadija,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Depositing money in a current account, without interest, at conventional bank is not Haram. But if there exists an Islamic bank or branch in your area (there is a new Islamic British bank in your country) it is certainly better to deposit the money you keep in such a current account in an Islamic bank, because a bank, any bank, will certainly use your money but a conventional bank will use it in lending on interest while an Islamic bank will use it for financing through permissible contracts.

On the other hand, depositing money in time deposits, in conventional banks, with any increment whether fixed or variable is Riba and forbidden in our religion. Riba is defined as any increment in a loan and a loan is characterized by being guaranteed by the bank. if the deposit is guaranteed by the bank, it is then a loan and any increment over the principal is Riba that is forbidden by God (the Qur'an 2: 279), and it is considered one of the worst sins in Shari'ah.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Question about keeping money in conventional banks**

From: Mehdi

Sent: Monday, March 28, 2005

**Question**

Salamo Alaikum Wa Rahmato Allah Wa Baraketoho,

Dear Brother DR. Monzer,

I apologize for writing to you without a previous notice. My name is Mehdi and I have been asked by the Board of our local mosque to prepare a report about the permissibility and the possibility of investing part or all of the donation money that is assigned to the expansion of our mosque. The money in question has been sitting for years (more than 5 years) in a checking account at a local bank waiting for the adjacent piece of land to be purchased. Noting that we have at least 3 to 4 years before the construction process starts I would like to ask about the permissibility of investing this money. In other words can we for example put the money in a saving account instead of a checking account, so that we can collect the interest's money instead of the bank collecting it, noting that the yearly interest's money is approximated to be around 6 to 7 thousand dollars?

Do we have to seek the permission of the donors? And if it is not possible to contact all the donors, can we still invest part of the money?

If we are able to put the money in a saving account, what are the rulings for using the interest's money? Can we add the money to the Zakat and Charity fund that already exists?

Does the opening of a saving account represent the best option available to us in this case or do we have others investment options?

Dear Dr. Monzer, sorry one more time for writing to you without prior notice, but we really do value your advice. May Allah bless your work in this life and in the life after, Ameen

Jazakum Allah Khairan.

Sincerely

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br.Mehdi ,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

It is wrong to keep large sums of money in checking accounts for a long time. The bank makes money on them, although Haram money from Islamic point of view.

Since this money is given to the Mosques and entrusted to the Mosques project management according to your constitution, you do not need any permission from the donors to place the waiting funds in an income-generating account. You have to do your best to minimize any potential risk.

What I suggest is the following: NAIT has a Muslim Centers fund that it invests in stocks that are scrutinized from Shari'ah permissibility point of view, but what is interesting in this fund is that although stocks went down during the period 2000-2002 Islamic centers that withdrew from the account were given by NAIT a full refund. This is an actual, non written guarantee.on the other hand over the last two years the fund was ok. Since NAIT keeps certain reserves for for bad years it does not distribute full profits in good years. This income is Halal and can certainly be added to the building fund.

The other alternative is to put the money in an interest account in the bank and add the interest to the money that the center distribute to the poor, YOU MUST NOT ADD SUCH INTEREST TO THE MOSQUE BUILDING ACCOUNT. Also if you decide to take this option please do not publicize it because there are many persons in mosques who may not like although this has been the Fatwa of all our great Ulama over the past quarter of a century since the late 1970s when the first international conference on the Fiqh of Islamic banking was held in Kuwait.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Islamic finance Contracts in Western Countries**

From: Elisa

Sent: Tuesday, March 15, 2005

**Question**

Assalamu alaykum

it's Elisa Scoparo again....I read everything in Your website, and I also had the pleasure to read a chapter You wrote in ""the politics of Islamic Finance"", about ""the rise of a new powerful alliance"" between wealthy people in Islamic banking and Shari'ah boards. Now I m drawing conclusions of my research, and I want to make a proposal of implementing the Islamic system in Italy, maybe a few banks are interested in this proposal and I want to make a realistic one. I wondered if you have any suggestion about it, I mean about how to implement an Islamic service in a country who knows nothing about it. I know that Muslim population here is enough to justify the proposal, maybe we need a license, or a certification from IDB, or we just can get in touch with some members of shari'a boards to have a Shari'ah compliant service. If You have any idea or previous experience about such a situation, I would be glad to know it. I really want to bring Halal banking in Italy.

Thank You again for your kindness.

My Best Regards,

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Elisa,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

What you need is to suggest to some of these banks to start preparing Shari'ah compliant contract, they may start with house financing on the basis of Murabahah and Ijarah wa Iqtina. These two contracts have become well known. In fact they are approved by the US Banking Comptroller a included under ""banking business."" The same contracts can be used in business financing.

Now we have two banks in Chicago, Illinois that started offering these two contracts to households and businesses and there is a new Islamic bank in Britain.

I can help in preparing these contracts, of course in English or Arabic, and the banks certainly need them in Italic.

Please write me if I can of any further help.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT Taking Interest from Bank**

From: Islam on Line

Sent: Thursday, March 03, 2005

Name of Questioner: Sameh

**Question**

As-Salamu `alaykum. With regards to Riba / usury. I understand it is wrong to take money which isn't yours (you haven't earned). But Business is alright (like Investments, trade, etc). Isn't this how Banks make their money? Like when you make an investment in a company, the company agrees to repay the principal to the lender by some future date, and pay a stated rate of interest in return for the use of the funds. This is an investment made in a company, which sounds like how the Bank works. Because you put your money into the bank, they make business transactions with your money (e.g. invest it in profitable projects) and then pay you back interest (a share of the profit). This is what my parents told me and that the big shierkh (imam) in Egypt said, as we come from Egypt and live in the UK. After researching this area, I looked at an Islamic bank it said this: 'Our Sharia'a Compliant Savings Account lets you profit from your savings while remaining true to Islamic teaching. We do not offer you interest on your funds, instead, we undertake Shari'ah compliant activities with the intention of generating profit, which we then share with you'. Savings & Term Deposit Target Rates Period Profit Rate Declared For December 2004 Undetermined term The 'Savings Account' 3.00% Term Deposit Minimum 30 days (1 month) 3.50% Term Deposit From 90 days to 180 days 3.75% Term Deposit Minimum 180 days (6 months) 4.00% This to me looks exactly the same but they changed interest rate with a share of the profit isn't this the same, however I know from your site that taking interest from bank is wrong. I'm trying to just do what is right and people keep confusing me by telling me different things. Should I just not listen to my parents and open an account in the Islamic Bank I would really like your help with this matter. Thank you, May ALLAH bless you for your help!

Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Sameh,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I like to suggest to you that you should read a little more on this issue. look at these point in the meanwhile:

1. Investment is a vague term. It may mean just giving loans (as used in conventional banks) and it may mean creating a company and having shares in its ownership. We need to define our words better.
2. Interest is on lending. This is exactly what Riba is. Riba is prohibited in the Qur'an and Sunnah with very strong wording that include declaring a war from God and His Messenger and the Wrath of God being on not only the taker and giver but also its writer and witnesses.
3. Conventional banks take loans from saver. all deposits with conventional banks are loans this is their nature and their legal definition (one characteristic of a loan is that its principal is guaranteed); they also give loans to business (this is what banks call investment). Any increment on a loan is Riba regardless of what it is called and what the loan is called as long as its nature is a loan. This is prohibited in Shari'ah regardless of who says what.
4. Islamic banks take deposits on the basis of creating a kind of partnership with you, called Mudarabah, and using your money on your behalf in their activities that are also based either on sale, lease or partnership with businesses. They do not take loans and they do not give loans. This is why they tell profit and we do not know how much it is going to be but we can say how much it was in the recent months.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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## FATAWA ISLAMIC BANKING 2004

**SUBJECT: Training in Riba banks for working in Islamic banks**

From: Annas

Sent: Saturday, October 16, 2004

**Question**

My name is Annas. I am Syrian that has grown up in Germany and I am currently studying Business Administration at a German Business School. I am very keen on learning more about the world of finance, however, I know about the conflicts that will surely arise when it comes to my Muslim faith.

I am very troubled by this issue and its very difficult for me to find an optimal way out.

At the moment the issue is very critical because I am not able to decide whether it would be ok, for instance, to make an internship at an investment bank, in the Mergers & Acquisitions division in particular.

For me it's definitely for the purpose of gaining experience and knowledge that makes me want to make this internship, yet I am still not sure about this as much of the business is about calculating interest and the like.

If you could give me an advice on this I would be very grateful, as it is hard for me to find people that know about economics and finance and at the same time about the rules that Islam has laid for us as far as these fields are concerned.

I have also a general question with regard to the possibilities to educate oneself in Islamic finance. I will graduate from university with a Bachelor degree this December and I will then have approximately 6 month before my Master Studies begin. I would very much like to use this time to increase my knowledge in Islamic economics and finance. Is there any hint you can give me?

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Annas,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Taking a training position in an investment bank is permissible because as a trainee you will not make any 'real' interest-based transaction. Calculation, practicing and learning Riba transaction are not prohibited. What is prohibited is to actually make a transaction on Riba, even if you make for a client, such as buying a treasury bond for a client. In fact you can work in a bank and an investment bank in areas that do not make such transactions. Such training may benefit you to obtain good experience for working in an Islamic bank. It is in fact needed in Islamic banks and other Islamic financial companies.

Studying Islamic economics and Finance alone is really difficult, if you are good in Arabic how about taking a Master's in Islamic economics and finance from the Yarmuk university in Irbid, Jordan; I teach in the graduate program at this time (I moved here only a month ago) and If you are good in English you may consider a Master's from the International Islamic University Malaysia. It will take you about 2 years either ay, sufficient time to learn the basics of Islamic finance!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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From: Annas

**Question**

thank your for your quick answer.

As far as the making a master in ""Islamic finance"" is concerned I would be definitely interested, however, I am already legally bound to my university in Germany, so at this instance I am rather interested in short-term programs or distance universities.

The problem with an investment bank is that you are fully integrated into the team, even as an intern. This means that is possible to be forced to do things one wouldn't want to do - such as actual transactions on Riba related issues, or research on issues or financial models that are the basis for transactions that are financed with debt or the valuation of existing debt in companies. That is why I am not feeling good about this.

Up to today I thought that in Riba the whole chain is Haram; certifying a Riba transaction (i.e., as an accountant), doing the job of calculating the Riba for a certain transaction or being involved in any activity that might lead to a Riba transaction.

Is your opinion on accounting (and internships in accounting) the same?

Thank you for your help,

Annas

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Annas,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

It was only a guess from your last name that I thought I heard of this name before.

In Riba, four things are prohibited: taking, giving, writing and witnessing. Recording it in accounting books is part of writing Riba and the Late Shaikh Zarqa made this note, other accounting activities in a conventional bank are permissible. Theoretical calculation for estimation of merger and other activities, advising about which deal may be better for a customer (on interest basis) and learning how these deals are done are not included in the prohibition. Also not included working in an interest-based institutions in areas that do not require you to do, yourself, a prohibited function.

For short courses you may try Markfield Program at the Islamic Foundation in Markfield, Worcester, UK.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Depositing in conventional banks while there are Islamic banks**

From: Islam on line

Sent: Wednesday, October 13, 2004

Name of Questioner majid Country of Residence Pakistan

**Question**

I am living in Kuwait. I have opened an account in national bank of Kuwait. the **account** name is al-Jahara account. It is non interest bearing account. Every month the bank make a draw between account holders and give them cash prizes. I want to know if this cash is Halal. I have talked with scholars here some says it's Halal others says it's Haram. They say this account doesn't give you interest and for the promotion they give you prizes. others say it's just like a prize bond so it's Haram. Could you please explain me what will be the case. May Allah guide us all to the right path. Amin

Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Majid,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

The fact is that such prizes may be Halal or Haram depending on the way they are done! a prize announced once in a while for promotion that may give to certain accounts, in all categories: current and times, with no mention in the account agreement and no regularity that makes it a known tradition of the bank, is permissible and Halal to give and take. It is pure promotion and advertisement activity.

If such a prize is given only to a category of accounts that is otherwise given interest, mentioned in the agreement or announced to the public, with any kind of regularity that makes it a custom or tradition of the bank known to the depositors, it becomes Riba, hidden under the name of a prize but that does not change its ruling that is Haram to give and take. If you get it you should give it away to Muslim charity, do not leave it to the bank and being in Kuwait, you should also switch to an Islamic bank for your investment deposits.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Use of interest rate as a bunch-mark for mark up in Murabahah**

From: Sayed Ameen [mailto:sayedameen@hotmail.com]

Sent: Tuesday, October 12, 2004

Name of Questioner Khalil

Country of Residence France

**Question**

Assalamu `alaykum, Can a muslim work as an actuary in a non profit insurance company, although, interest rate are using during calculation of premiums? Jazakum Allah kheiran!

Jazakum Allahu Khairan for your constant help

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Khalil,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Yes, it is permissible to work as an actuary in a non-profit insurance entity. Is it a company or a cooperative? what do you mean by its being a non-profit?

Actuaries make studies and plans and propose policies, premiums and adjustments in practices, they do not make insurance contracts. It is prohibited to make an interest-based contract including typing and signing it even if it is done on behalf of an employer. If this non-profit invest its cash on interest basis, it is also prohibited for a Muslim to make these interest-based contracts.

What is prohibited in interest is to make any increment in debts / loans between persons/entities. It is not prohibited to use certain interest rate as a reference in calculation of any other thing. Islamic banks use the prevailing interest rate in determining the rate of mark up in the permissible Murabahah transaction; otherwise they will fail in a market that is dominated by interest-based banks!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**SUBJECT: Buying stocks of Islamic banks**

From: haneef  
Sent: Sunday, September 26, 2004

**Question**

Assalam O Alikum,

Firstly, thank you ever so much for getting back to me with my previous question regarding, Working in Banks.

Could you, be so kind as to answer my following question?

The first Islamic Bank of Britain, will be offering its shares to buy in, October. I have read your article on, buying shares from Islamic Banks.

From, what I have read it would seem that purchasing such a share is totally valid and in compliance with the Islamic Shari'ah. Could you, please confirm whether my understanding is correct?

Thank you, so much Sir for all your help. May Allah swt reward you for your efforts and your willingness to step into a field that has been taboo and controversial for so long. At least, now we have a figure who can tell us what is in compliance with Islam and what is not. Actually, I myself am in my 2nd year of Law. I am hoping to do a Masters in Islamic Banking Law or Comparative commercial law in 2006, InShaAllah if you are not too busy? Then if you could advice me on anything I should do or watch out for? It will be most appreciated but, only if you are not too busy, Sir.

Kind Regards,

**My Answer**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Haneef,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Yes certainly, your understanding is correct. It is permissible to buy stocks in the new Islamic bank, rather it is better that you and other Muslims do and give it the support it needs.

It is great to hear that you want to study Islamic financial law. I quickly suggest that you need a strong background in Arabic, Usul al Fiqh and Fiqh axioms. I suggest that you take a year or two to do that before you go to any Western school of law, including those that claim they teach Islamic law and Islamic banking!

Please write me if you think I can be of any help.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf



I mentioned in my previous reply. If you use the second alternative you do not need a record of commitment and you will use receivables instead of Murabahah loans.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Sadaqat

**Question**

Issalam Alaikum

Hope, by the grace of all mighty Allah, you will be fine together with family

I had attended the course recently conducted by you in Dubai ( 06/06/04 to 09/06/04, and really enjoyed with you

I need clarification on the Murabahah transaction

1. Purchases of goods from supplier in order to re-sell the goods to its client.

After issuing LPO to the seller and receiving confirmation of sale to bank should we record the transaction to reflect the purchase

For payment to the supplier

DT. Assets a/c Murabahah 20,000.00

CR PO issued/Check account 20,000.00

The above is required as per Shari'ah or not

2. Execution of sale contract with customer

Dt. Murabaha Loan account (Sale Price) 21,000

Cr. Sales (Purchase of goods under Murabaha) 20,000 Cr. S.Cr .

Deferred profit (liability a/c) 1000

Profit amount declared and agreed by customer 1000 @ 5% p.a

OR OTHERWISE, CAN WE DIRECTLY RECORD THE SALE WITHOUT PASSING ENTRY FOR PURCHASE , AS UNDER:

Dr. Murabahah Loan account (Sale Price) 21,000

Cr. PO issued/Check account 20,000

for direct payment to supplier )

Cr. S.Cr . Deferred profit (liability a/c) 1000

What is allowed under Shari-ah and what is practice in the Islamic bank

Appreciate if you kindly spare few minutes from your precious time and response to the above

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Sadaqat

Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

It is very nice to hear from you after the course. I personally also enjoyed being with this group of intelligent and concerned people.

I don't have the accounting standards of AAOIFI but I am planning to visit Bahrain soon and I will get the publication InShaAllah.

I therefore, can answer you according to the general standards that require the accounts to reflect the actual legal relations. step 1 and two are correct but along with step one an off-balance-sheet record is added to reflect the commitment of the client to buy these goods as follows:

debit; client Murabahah commitment 21000  
credit Murabahah goods purchased 21000

Of course, this record is reversed once the price is charged to the client account in the second step.

The second difference is that in step 2 Islamic banks do not use the word "loans" they used instead "Murabahah receivable account."

Additionally, most Islamic banks split the account of deferred profit, in step 2 in two: one for current year and one for the next year.

I don't know of any Islamic bank that makes the record directly as you suggested in the second alternative because there is always a time sequence between the two steps. This is more obvious in import financing where the time gap between the two steps becomes wider.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Difference between Islamic and non-Islamic Banks**

From: Islam on line

Sent: Tuesday, June 22, 2004

Name of Questioner Country of Residence India

**Question**

WHAT IS THE DIFFERENCE BETWEEN ISLAMIC BANK AND OTHER BANKS ESPECIALLY IN GULF COUNTRIES (ISLAMIC COUNTRIES) IS IT ALLOWED TO WORK WITH OTHER THAN ISLAMIC BANKS.

Jazakum Allahu Khairan for your constant help

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Nouha

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Essentially, while both provide financing on the basis of getting return, conventional banks provide it on the basis of interest-based lending; they get the largest chunk of their resources on the same basis as interest earning loans to the bank (called deposits). On the other hand Islamic banks provide financing on the basis of either deferred payment sale or leasing or capital sharing; they get the bulk of their resources from profit/loss sharing deposits. The difference is not in the fact that they both earn from financing. In fact, this is the similarity that

the Qur'an did not deny when the Unbelievers of Makkah mentioned it (2: 279). Many people wrongly think that Islamic financing must be either free or only on the basis of sharing capital. On the other hand, it is permissible to work in a conventional bank provided you do not write/ fill in any interest-based transaction or sign it on behalf of the bank because such acts make the actor fall directly under the curse of God as we are told by the Prophet Muhammad, pbuh.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Can Female Work in an Islamic Bank?**

From: Islam on line

Sent: Sunday, June 13, 2004

Name of Questioner rahmath

Country of Residence India

**Question**

ASSALAMUALIKUM, my questions is about banks. Can a female work in a bank. is it ok to work in other than Islamic banks and also can u please tell me whether we can work in Islamic banks in Islamic countries with Muslim names . please give me an eloborate answer for this as iam planning to do a carrer in banking sector if it is Halal.

Jazakum Allahu Khairan for your constant help

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Rahmath

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

In principle there are no differences between sexes in regard to work. The only works that, although not forbidden, we Muslims do not usually like our females to do are those that do not provide her with sufficient respect, like sweeping and cleaning streets. These jobs are not prohibited though!

Obviously doing any forbidden action, whether as a job or otherwise, is not permissible in our Shari'ah and this applies to women and men alike.

Working in a conventional bank is permissible provided that a Muslim(ah) does not do any prohibited action. In this regards, the Prophet, pbuh, mentioned that the wrath of God is on the taker, the giver, the writer and the two witnesses of Riba. Therefore if your job in a bank does not require you to do any of these functions it is permissible to work in a conventional bank because you should not expand on prohibitions.

On the other hand, no one denies that working in a conventional bank in any capacity amounts to helping in making prohibited transaction. It is therefore not the best kind of job in the world! Other jobs that do not involve such a help to prohibited actions are certainly better.

Working in an Islamic bank is no doubt much better than in conventional banks. The Gulf area has several Islamic banks that still depend on expatriate employment and to the best of my

knowledge Islamic banks do not discriminate on the basis of sex, religion, color or race in their employment. I have seen non-Muslims working in Islamic banks and I have seen females too.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Islamic Banking Career**

From: Islam on line

Sent: Saturday, June 05, 2004

Name of Questioner Hayat

country of Residence Canada

**Question**

Assalam-Alaikum Dr. Kahf, I wanted to get some guidance from you as to what direction I should take in my career. I am interested in Islamic Banking and want to know if there are any good online universities which offer good Islamic Banking courses. I did some research on the Canadian universities, but they don't really offer a course on Islamic Finance. Or, is it something that is self-taught? I noticed on your website that there was a lot of material related to Islamic Finance. Also, as a Muslim living in Canada, how can I try and make a difference in the Banking system over here, and try to introduce Shariah compliant mortgages, investment funds, etc. Thank you for taking the time to answer my question.

Jazakum Allahu Khairan for your constant help

**My Answer,**

Bismi Allahi al Rahmani al Rahim,

Al Hamdu li Allahi Rabbi al 'Alamin, wa al Salatu wa al Salamu 'Ala Sayyidina Muhammad wa 'Ala 'Alihi wa Sahbihi 'Ajma'in,

Dear Br. Hayat

Assalamu Alaikum wa Rahmatu Allahi wa Barakatuh

Islamic banking is important, it has a future in North America as there will be soon a time, after some effort on our part, when we will have full fledged Islamic banking.

MA's in Islamic banking are offered in several universities in Malaysia, Saudi Arabia, Pakistan, UK, Jordan. I don't know of internet degrees that are accepted as equal to such universities. It is not only self taught as you really need structured courses! You know there are several internet universities that offer so called degrees in Islamic banking; search the engine for their sites. But my advice is to try to join one respected u or try to work in the Islamic finance section of the Royal bank of Canada or the Islamic division of the HSBC in New York such a work would help develop your understanding and I am sure you will make a difference on the North American scene. May God help you.

Wa Allahu A'lam,

Wa al Hamdu li Allahi Rabbi al 'Alamin,

Wa Assalam,

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Mutual funds and banking facilities**

From: feisal

Sent: Wednesday, April 21, 2004

**Question**

Assalamu alaikum Dr. Kahf. How are you? My name is Feisal Rahall and I am a friend of Tariq, who forwarded your address to me. I would like to ask you a couple of questions if you wouldn't mind. I recently came back from Hajj and I find myself being extremely cautious regarding everything especially the matters of financing. I always hear of many different Fatwas concerning these situations. In the case of Mutual Funds, many scholars have deemed them acceptable. There are many Muslims who invest in these funds as a tax shelter to avoid paying higher taxes to the federal government. My question for you is it better to put the money in a straight RRSP fund that gives me a fixed interest rate, then I take the interest made and give it away to a charity?

Also, as I mentioned before, there are many Fatwas regarding such things as car loans and mortgages. Is it permissible for a Muslim to lease or take a loan out on a new vehicle even though he or she has the money to pay for it? I have heard it is okay as long as it is a fixed interest rate over a fixed term agreed upon by both parties. I would really appreciate any wisdom you could offer me on these specific questions. JazakALLAH Kheir for your time and may ALLAH (SWT) reward your contributions.

Feisal

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Feisal

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

I am not aware about the many Fatwa that you mentioned.

1- Mutual funds are treated the same way as stocks because what you buy in mutual funds is in fact units in a company that is managed by someone for given fees and its assets are the stocks it holds and trade. You cannot say that mutual funds are Halal or Haram without knowing the assets they hold. If the majority of these assets are Haram, holding units in the fund become Haram too. The OIC Fiqh Academy discussed the matter of stocks in one of its sessions and its resolution is as follows:

1- stocks of companies that deal only in Halal products and Halal transactions are permissible, example: stocks of Islamic banks or any company that does not deal in interest and other prohibited products or contracts;

2- stocks of companies whose main business is prohibited are prohibited even if the company makes some permissible activities, example: conventional banks inspite of the fact that many of them give charities and spend on community services that are certainly Halal. These stocks are Haram to buy, hold and sell because by holding them you become partner and the actions of the management is done in your name and on your behalf, as if you did them.

3- stocks of companies whose main line of business is permissible, like computer or furniture production but they deal with certain prohibitions such as getting interest-based loans or depositing on funds on interest or having a small subsidiary that does that. The principle is that these companies are also Haram because a little or peripheral Haram is as forbidden as a lot of it.

Here, a group of scholars dissents. They argue that at this time and under the world circumstance such a prohibition creates a great hardship for many Muslims who cannot invest their own savings directly. In application of the Shari'ah rules that hardship always calls for relaxation; they continue that there must be certain criteria to determine the degree of tolerance of such stocks (that obviously represent the great majority of stocks). They came up with certain standards that aim at containing the forbidden transactions within a restricted limit: income from interest and other prohibited matters must not exceed 5% of the total income of the company, its assets used in interest and other prohibited matters must not exceed one third of total assets, it must not depend on interest-based borrowing for more than one third of its total assets. Additionally a cleansing criteria must be applied whereby one must estimate the percentage of the Haram in the company one invests in its stocks, both dividends and capital gain and give away to Muslim charity the same percentage of the return one get at the end of the period.

These criteria are easy to apply because companies are required to issue this info. Dow Jones Company used them and issued what is known as the D J Islamic market index. And some companies bought the right to use it and established Islamic market funds. Search for them on the internet.

To come back to the Mutual funds mutual funds that satisfy these criteria are permissible with the cleansing requirement. You need to do your homework if you want to invest in funds other than the Islamic funds.

2- I suppose the RRSP is the Canadian retirement funds, if it is not please correct me and explain: No it is not better to invest in interest and give it to charity whole there are outlets that are Halal. Interest given to charity is not considered Sadaqah; it is only cleansing and it is InShaAllah rewarded as such; but if you invest in Halal and still give from it is certainly rewarded at much higher rate, up to 700 times and more. The Islamic Housing Cooperative of Canada is authorized as an RRSP outlet, and you can invest in it the RRSP and it is Halal!

3- I am sorry not to be aware of the MANY Fatawa that interest for car and others is ok! To the best I know interest is Riba and it is Haram in the Qur'an and Sunnah whether it is for a car, a house, or any other purchase. It is one of the worst sins a Muslim may ever do as it is the only sin that provokes a war from God and His Messenger (the Qur'an, 2:279). True, under necessity a relaxation is incurred but a necessity cannot be expanded to what is not necessary.

4- There is a strong argument for buying a house to reside in for Muslims living in the West for several consideration that include decency of the area, schooling, building equity, tax saving, etc, although these are not necessities in the strict sense but since they apply to most or all Muslims in the West they are treated like necessities under the rule that when a thing that is needed (but below necessity) applies to a large number of people it is then treat as if it is a necessity; it is called in Fiqh ""Hajah 'Ammah."" I don't think it applies to buying cars in America unless in very very special individual cases

5- I don't know of any Muslim who says it is permissible in Shari'ah to take a loan with FIXED or variable interest. In fact Riba is defined as any increment in a loan. It is certainly Haram and big Haram.

6- Leasing is permissible for cars and other things provided the lease agreement does not contain other violations of Shari'ah. And one must look for such other violations in lease contracts. It does not matter if the lease is done with a bank that deals with interest or with an Islamic company that does not deal with interest.

Please do not hesitate to contact me for any other question and give my Salam to Tariq, in the meanwhile try to make some homework on the internet, start with the word Islamic financing or look at my website especially the item Fatawa, it is [www.kahf.net](http://www.kahf.net)

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Opening a Bank Account in a Non-Islamic Bank**

From: Islam on line

Sent: Sunday, March 14, 2004

Name of Questioner Tamer

Country of Residence Egypt

**Question**

Salamo Aleykoum I was wondering on the Islamic ruling of opening a bank account. Must it be in an Islamic bank or not? Also what type of account should I be looking to open? What about the interest I receive in my account (if any)...should I simply discard it or can I use it for personal use or should I spend it on more needy Muslim brothers? Thank you for your time.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Tamer

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

If you live in an area where an Islamic bank is accessible, you should use its facilities to open an account and other services unless it cost you much more than normally charged by other banks. Egypt has several Islamic banks and there seems no need to open an account with conventional banks in Egypt.

If you happen to have earned interest, such interest must be given to Muslim needy, preferably through Muslim charitable organizations. You cannot use it for any personal things including payment of taxes or even of interest you may have contracted with a Riba-based institution. The reason is that earned interest is not yours and the contract via which you earn interest is not valid from Shari'ah point of view. This means that it is still owned by the bank that gave it to you. But we do not leave it to the bank because it is interest-ridden (we then would be helping it doing more evil) we have to treat it as money that has no owner: give it to charity. You will be rewarded for keeping your own money and finance pure from the evil of Riba but it is not considered a Sadaqah.

Wa Allahu A'lam  
Wa Alhamdu li Allah Rabbi al 'Alamin  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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## FATAWA ISLAMIC BANKING 2003

### **Subject: Can I Buy a House with the Contribution of an Islamic Bank?**

From: Islam on line

Sent: Monday, December 15, 2003

Name of Questioner Hassan

Country Australia

#### **Question:**

I have 2 questions related to the system adopted by Islamic banks in Qatar to enable people to purchase homes. I will use an example to illustrate my understanding of the system. I want to buy a house worth \$100,000, and can afford paying \$20,000 cash. The Islamic bank will then make up the difference (\$80,000) to the seller. So, the seller of the house will get my \$20,000 in addition to \$80,000 from the bank. The Islamic bank will then ask me to pay \$10,000 per year for 10 years. Therefore, the bank will ask me to pay \$100,000 for the \$80,000 that was paid to the seller of the house. This is considered by Islamic scholars not to be same as paying interest, because no cash changed hands. Further, the bank will not charge any interest if I miss paying any installment, but the bank makes it impossible for me to miss a payment by taking a guarantor to the loan, which would be liable for any installment if, for any reason, I am unable to make it. My FIRST QUESTION is if my understanding is correct. If this is correct, it does not look like any different to another bank "not Islamic". In Australia for example, I can ask a bank to contribute \$80,000 as per the above example, and ask the bank to fix an installment for a set number of years, say 10 years. The Australian bank will then use some sort of a projection method to calculate a payment plan and arrive at an annual repayment. This annual repayment may end up being \$10,000 x 10 years, which is exactly the same as the payment of the Islamic bank. My SECOND QUESTION if this method with a non-Islamic bank is not Haram? Please note that: (1) There are no Islamic banks in Australia (2) The cost of borrowing money from the bank this way and repaying it will most likely be to my advantage InShaAllah due to the expected increase in the land value that outweighs the cost of getting the bank involved (3) I checked on your website and found conflicting opinions from scholars on this issue Thank you and Gazak Allah Khair. Salam alaykum

#### **My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Hassan

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

If you think that Islamic Bank will give you money because its depositors love you as their brother in Islam, your expectations will certainly fail! Islamic banks are there to make money for their depositors and share holders. they use Islamically permissible contracts instead of interest-based contracts, and no they are not similar. you are incorrect in seeing them similar. Actually, your description of the Islamic contract of Murabahah is perfect. This is the way Islamic bank does it and this is the way it should be done in accordance with Shari'ah. the bank buys the property cash for 80 and sells it to you installments for 100. and takes collaterals and guarantees to secure these installments (debts). Do you see the element of purchase and sale to help you only and to make money in this help that is to help you not out of personal love to you but to make money through buy and sell? Do you see any thing wrong in buy and sell? Interest is prohibited and the unbelievers of Makkah noticed certain similarity, which is true as I and you see it too, between deferred-payment sale and interest loan, and the Qur'an, marvelously, did not deny the similarity! did not say: you guys are stupid! how come you say sale is just like Riba? Instead the Qur'an said but sale is permissible and Riba is prohibited. In Fact deferred sale can't be prohibited because there is a need for financing. But whence you accept Riba, you will have to accept discounting and rediscounting and pile up huge wealth of debts in the society, layer above layer until what probably they explode in a financial crisis! In sale you cannot pile up debts, you can take collaterals and guarantees to assure payment. I am sure that Islam on line web is full of explanations of this idea; I did many answers to similar questions myself. Please read it carefully. It is clear, not confused!

For a question on house financing for Muslims in Australia, please either consult the web for answers which I made more than once or rephrase your question and send it again.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Transferring Money to HSBC Islamic Section**

From: Islam on line

Sent: Saturday, November 08, 2003

Name of Questioner

**Question:**

salaam 3laikum wa Rahmatu Allah wa Barakatuh, I am a partner in a company (along with my mother and brothers, which we inherited some shares in after my father's death). I am the eldest of my brothers and I am the only male old enough to get involved in the business. Our partner is running the business, and I just learned that we (the company) pay interest on the loans. also those loans require that we deposit a fixed amount of money, and we earn interest on them. But the partner uses all that interest to pay some of the interest on the loans. The bank which we use is HSBC, which has an Islamic system also. My question is can we transfer to HSBC Islamic section, or do we have to transfer to an Islamic bank. Because my partner refuses to change the bank? And if he refuses to transfer to the Islamic section, (because as he says it is more expensive and will cost us a lot, and also he do not believe that Islamic banks are really following Islam when giving out loans), can I ask him to divide our Loans and deposits between

the two sections of the bank. So that we do not pay interest and he does if he still refuses to transfer? Lastly I want to know if our business is considered built on Haram (because we pay interest or Halal because we do not take interest), and if yes what should we do. wa Jazakum Allah Khairan 3ala your help.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

There is a lengthy discussion in the classical Fiqh about whether a Muslim can enter in a partnership with non Muslims. the center point of this discussion is simply that if the non-Muslim partner is also the decision maker, she/he may indulge in interest (Riba) transaction on behalf of the partnership and that means that the Muslim is also doing Riba transactions because she/he allowed the partner to be the decision maker knowing that Riba is not prohibited in her religion and she may indulge in it.

This discussion illustrates my answer to your question. It is not permitted in Shari'ah to take interest based loans or to deposit on interest. The ruling is the same whether you do it your self or your partner/manager does it because she/he acts on your behalf, like it or not!

It is permissible to deal with the Islamic Division of HSBC regardless of whether there are Full Islamic banks or not.

The solution is only to transfer all your transactions to the Islamic division or another Islamic bank, and if not get out of this partnership and avoid this partner that has no fear of God. God forbade interest and made it one of the worst sins, a sin that warrants declaring a war from God and His Messenger.

A partnership is one entity, so you cannot claim that you can divide it, without breaking it, into deals that belong to the partner and deals that belong to you.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Muslim Student Depositing Money in Banks**

From: Islam on line

Sent: Thursday, September 11, 2003

Name of Questioner abdelgadir

Country Eritrea

**Question:**

Assalamu alaykum, I am a Muslim from Eritrea, I am studying now in India, my family used to send me money for my expenses, I deposited this money in a bank here in India, after three years I have found that my money has been increased by Rs.15,000 which is the interest as they told me. my question is that, how can I rid of this amount? secondly, can I rid of this amount of money (15,000) from my account by giving it to my uncle sons they are an orphans in Eritrea after I return back. or I have to give it to any one (needy persons) here in India. thank you.

Notes

all the banks here in India are Ribawia. that is use the interest policy, so in this situation how can I manage my money.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. abdelgadir

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

In your situation, you deposit your money in the nearest bank to you and take the interest and pay it when you go back to your orphan cousins since they are poor as you mentioned. You must not take the interest money for yourself and when you give you do not need to tell the recipient about the source of this money.

It is not safe to keep money at home and very often it is not convenient too. And since there are no Islamic banks in your area it is then permissible to deposit in Riba-based bank. Please notice that there is an Islamic bank in India, it is called Amanath Islamic Investment bank; ask about it, it may not exist in your area.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Islamic Banking**

From: Islam on line

Sent: Sunday, August 10, 2003

Name of Questioner muhammadullah

Country India

**Question:**

Respected Mufti (hafizakum Allah) Assalamu Alaikum In the present day a wave of Islamic awareness has swept all across the world specially the Islamic countries. Many international companies and overseas banks are coming forward with new Islamic banking and financing schemes. What are your valuable views regarding the matter and how far it is going to be in accordance with the Islamic Shari'ah. Please, provide us with a comprehensive reply on the issue. If you have already written anything on the topic, please, forward it to us so that we also can benefit from your research and opinions. Ours is a research and education organization working all over India for the noble cause of spreading Islamic knowledge and awareness among Muslims Ummah and non-Muslims. We are receiving excessive questions pertaining to the Islamic banking and finance. Your answer will immensely help us to provide our people with satisfactory and authentic reply. Believe you will reply soon! Muhammadullah

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Muhammadullah

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

In one word, Yes it is permissible for any entity, Muslim or non Muslim, natural or legal, to provide Islamic banking services. Many of such providers establish their own Shari'ah boards to study their contracts and transactions and if the members of the Shari'ah boards are respected scholars you can trust that their operations are within the limits of Shari'ah.

There are several researches in this Area please visit my website at [www.kahf.net](http://www.kahf.net) and the website of IRTI, IDB, Islamic Economic Research Institute at the King Abdulaziz U in Jeddah and the webs of any Islamic bank. You will find research in your area of interest.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Murabahah**

From: W. Shihab

Sent: Thursday, July 17, 2003

**Question:**

Name of Questioner aadil

Dear Sheikh, Can you explain to me exactly what is described as Murabahah and under what conditions it can be used? I heard that it is something that resembles Riba but I don't quite understand it

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. aadil

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Murabahah is a sale contract that is based on full disclosure of cost and profit on the part of a seller. It can be practiced on an order of a purchaser as is "buy this item and I will buy it from you at cost plus 10%." It is then Murabahah to the purchase orderer. This transaction is heavily used in Islamic banks as a financing contract. You know that Financing (for profit) in Shari'ah is permissible provided it runs through real commodities. The vehicles of financing are either sale or lease or equity partnership. Murabahah is a sale-based financing. The transaction consists of two consecutive sale contracts with a previously given order to buy and a promise to buy from the first purchaser. On order from the customer, the Islamic bank buys an item, say for 100 paid cash; after physical possession, the bank sells the item to the purchase orderer for deferred payment at cost plus an increment. If the promise takes the form of a contract executed before the item is purchased and possessed by the IB the Murabahah is invalid and becomes Riba. Similarity with interest (Riba) is that both produce fixed return known in advance (in Murabahah since receiving the promise, but it may not materialize, it becomes contractually known when the second sale contract is signed). Dissimilarity is that Murabahah is a sale that passes through a commodity, actual possession and ownership with all legal implications of ownership while interest lending is merely a loan contract that does not have necessarily a

commodity. Murabahah cannot be used to reschedule previously existing debts nor for inter-bank deals with already existing debts. There are legal, financial and economic implications of these differences that are more sophisticated and you find them in professional research. You may see my article in the Thunderbird International Management Journal, 1999 and others.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: accounts in conventional banks**

From: Islam on line

Sent: Thursday, July 17, 2003

Name of Questioner Hamed

**Question:**

Is it permissible to open a current account in a conventional bank?

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Hamed

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

It is permissible for all/any Muslims individuals and groups to open accounts in interest-based banks whenever there are no Islamic banks or Islamic banks do not offer as convenient services as conventional banks. In all cases, In the UK or in Muslim countries if the account generates interest, any interest should be given away to Islamic charity.

Muslims and Islamic organizations who live in the UK and other Western countries are in much more need to open bank accounts than Muslims who live in remote areas in any Arab or Muslim country because of the different way of paying bills and managing/holding money. This account you ask about is permissible InShaAllah.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject:**

**Murabahah**

From: Islam on line

Sent: Wednesday, April 30, 2003 8:00 AM

To: Monzer Kahf

Name of Questioner Elsadeg

Country U K

**Question:**

Assalamu alaykum brothers and sisters. I live in the UK, and work as a hospital doctor. I want to buy a house. I heard about the fatwa from Shaikh Al Qaradawi , who said its permitted to buy

house with the mortgage (interest) Currently in the UK there is Islamic bank called AHLI BANK in London (Kuwaiti in origin) They buy the house and then they either sell it to you in a higher price (Murabahah) or they rented to you (Ijarah). They are much more expensive than the conventional banks. I would like to know is this Halal? People think that the Islamic banks are doing the same thing but they give it different name. I am really confused WHAT SHALL I DO?

Notes

Since the Fatwa is there, is it ok to take mortgage from a British bank or agency?

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Elsadeg

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

If this bank you have that calls itself Islamic has a Shari'ah adviser(s) or board that consist of known names in the field of Financial Fiqh, it is no doubt Islamic because these scholars would see to it that banks follows the Shari'ah rules.

It is true however that there are similarities between Riba and permitted financing. Even the Qur'an did not deny such similarities that the Makkan disbelievers mentioned (2: 279) But the Qur'an added that "God made sale permissible and Riba forbidden" inspite of these similarities because there are differences too that warrant the variation in the Shari'ah ruling. For instance Riba can be given for undisclosed reasons whereas deferred-payment sale can only apply to a commodity (car, house, refrigerator, etc); one is a loan contract the other is a sale contract; etc. Now, if the Islamic bank sells you the same service at a higher price than conventional banks it means it is exploiting your religiosity. This is certainly forbidden. Islamic banks must be competitive and must sell the financing service at competitive prices; otherwise the Fatwa of resorting to conventional mortgage applies because such an exploitative bank is treated as it never exists.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Is Islamic Banking Dany different from conventional banking?**

From: farrukh

Sent: Tuesday, April 29, 2003

**Question:**

Assalam Alaikum,

I have one question, why the interest rate of conventional bank is not significantly different from "profit sharing" rate of Islamic Bank? Profit.

Islamic banks need to provide at least the same return as conventional banks to remain competitive. They will not give a greater return than conventional banks so that they can keep a greater share of the profits. It is simply remaining competitively priced; I'd do the same. Exploitative, maybe, profitable, without doubt. Wa Salam, Farrukh

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Farrukh

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

You're right Farrukh. They live in a business environment that is overwhelmed by conventional banks and they have to be competitive, You may also notice certain monopolistic tendency when an IB is alone in its sub-market. They don't determine profit distribution according to the interest rate of the conventional competitors because distribution comes as a result of contractual rate of profit distribution but they determine the latter keeping an eye on the competitors. It is a survival game, is it not?

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Dealing with Banks and Buying Shares and Stocks**

From: Islam on line

Sent: Monday, April 14, 2003

Name of Questioner Mona                      Country Canada

**Question:**

Assalamu alaykum, I'd like to know if dealing with the bank is Haram. In Canada, dealing with banks is in all aspects of life. Having a retirement saving plan, taking a loan to pay for a car or to start a business. Paying a mortgage to buy a house, using credit card to buy every day's needs. All these dealings are associated with interest. If dealing in interest is Haram, what's the option? I can't just put the money I earn at home and worry that it'll be stolen. No one carries money in his/her pocket or keeps it at home. I asked the Imam in the mosque & he gave me a vague answer. Please I need to have a practical solution for this matter. I believe that bank system here is much better than in my home country in Egypt. If a man wants to get married & buy a house he has to work all his life to manage to do that. Some people can't even do it. While here anyone who wants to do the same thing can go & do it tomorrow. Bank system facilitates life here in so many ways. You can start a business of course if you satisfy certain criteria as having a good credit history among other things. Also I'd like to know if buying shares, bonds or stocks is Halal. Jazakoum Allah

**Notes**

I know that in Egypt there are so many people who can't find jobs, can't start business, can't get married & can't buy every day's needs. It doesn't really matter how educated they are. Obviously that leads to so many social problems as: adultery, zawag orfy (which is a major problem now in Egypt), stealing & killing. Now I'm not saying we don't have this in Canada but at least, if you don't have enough money, you're not doomed for the rest of your life to stay so. You can take a loan & start a business or take a loan and be a partner in a company or buy stocks or shares. I appreciate your prompt reply. Thank you

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Mona

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

First, please relax and have patience; it seems you are either new in Canada or new in dealing with banks! you have rushed too many things together and brushed them with one phrase: "dealing with banks." as alternative of putting your money at home and wait for a thief to come and grab them! That is why probably you got a vague answer from the Imam or you thought of it as vague at least. Please take the following few points and think about them and if you have any further question please send them without any hesitation. You can consult the Fatwa band at Islam on line or my website at [www.kahf.net](http://www.kahf.net) for further info on this matter:

1) - Interest is certainly forbidden in Shari'ah. The Qur'an (2: 279) used the strongest ever warning with regard to this prohibition by declaring a war from God and his Messenger on those who keep dealing with Riba. Riba is any increment stipulated in a loan contract. a loan is giving money with the condition of returning it in the future. This is exactly what is meant by the word Riba that is mentioned in the Qur'an. For this the word interest is used in our current language.

2) - Banks, in Canada as well as in Egypt, offer several services, some of them are interest-based and some are not. instead of keeping your money at home you can open a current account which is not interest-based, pay your bills, by checks or electronically, get your income deposited in this account either directly or by making a trip to the bank's nearest office. All these services are interest-free.

3) - Getting loans from banks in Canada and from banks in Egypt is forbidden (Haram) because they only give loans that are loaded with interest; certainly the only exception is the case of necessity.

4) - Having credit cards (i.e., signing their contract that include a clause that if you don't pay within the grace period you have to pay interest) and using them are both permissible provided you do not expose yourself to invoking the interest clause. This means you can use them to pay bills and pay within the grace period. withdrawing cash makes interest to begin accumulate from the day of withdrawal (i.e., it does not have a grace period) and delaying full payment until after the due date, both, trigger interest. This means that if you cannot guarantee to yourself complete fulfillment of these two conditions it become forbidden to use credit cards. You know by the way that credit cards charge you a very high interest rate!

5) - Buying a residence with interest-based financing may be permissible under the case of necessity. There are two conditions here too: the family must be in need for a house in consideration to its size, its need to build equity and get settled, close to good schools, etc. and there must be no other alternatives available for financing through Islamically permissible contracts such as a 'lease to own' contract.

6) - Saving accounts and other interest-based transactions with banks, in Canada and in Egypt, are certainly forbidden in our religion and one must not resort to them unless under the necessity rule. In application of the necessity rule one must keep in mind the she is the final

judge in determining what is necessary and what is not but such a decision is going to be scrutinized by the Most Knowing Who cannot be cheated or fooled!

7) - Banks, in Canada and in Egypt, give you the umbrella when it is not rainy; they never give you an umbrella when you needed it most. Try to get any kind of loan (to start a business, for a car, for a house or to go gamble in Las Vegas) for a person who is not financially strong! It will never be given and such a person may ends up with the homeless that fill the streets of all big cities in the USA, Canada and to a lesser extent in Egypt only because of the strength of family ties.

8) - Egypt has many social and economic maladies, no doubt about that but its illnesses are not cause by the lack of Canadian or at least Canadian-style banks there. It has plenty of them and only two Islamic banks! Both time and the subject of this Fatwa are not the best space to dwell on these maladies that both you and I know many of their causes anyway.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Getting the "Benefit" from Islamic Banks**

From: Islam on line

Sent: Tuesday, April 01, 2003

Name of Questioner Muhammad

Country Bangladesh

**Question:**

Financial Transaction: Do we take the benefit from Islami Bank in our country? such as Islami Bank, Bangladesh Al-arafah Islami Bank

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Muhammad

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

If you mean by benefit having the opportunity to make financing transactions without committing the grave sin of Riba, certainly every Bangladeshi has this opportunity because your country is blessed with at least four Islamic banks. What other benefits do you expect?

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Islamic Banks and the new Fatwa of al Azhar**

From: Islam on line

Sent: Thursday, March 06, 2003

Name of Questioner Qureshi

**Question**

Assalamu Alaikum: RIBA: Al-Azhar Fatawa say modern fixed bank interest is not Rib-aj-jahliya. Here in Pakistan the devaluation is about 18%p.a banks pay only 12% which they call profit. We officially have no Riba bank accounts are profit/loss accounts but in reality its interest as offered by any other bank. I don't have a job right now and I am unable to enter a business and I need constant income my savings are eroding as I am living on my savings for the past 13 months. Please suggest. Is this PROFIT Riba? Can I take this profit for a certain period of time till I'm able to earn some money through a job or a business?

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Qureshi

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

I don't want to dwell on the new Fatwa of Azhar, it is political and instigated by the Shaikh of al Azhar who expressed the same Fatwa before and was banned from the OIC Fiqh Academy in 1995 because of it. This Fatwa has no base in Shari'ah on two grounds:

1-the contract of bank deposits is a loan contract, it is not investment. Shari'ah defines any increment in a loan as Riba and Riba al Jahiliyyah as prohibited in the Qur'an itself.

2- the conventional banks' activities is mainly to give loans to businesses on the basis of interest, hence depositing with a conventional bank is tantamount to giving it money to give interest-based loans and the source of the banks income is from interest

Your case is very typical my dear brother. What conventional banks in Pakistan give on deposits is interest even if they call it profit. Pakistan has several private Islamic banks you can deposit in them what they give to depositors is a share of profit and they give to businesses on the basis of Shari'ah-compatible financing contracts. You can deposit in these banks or make a business with a friend or relative.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Telling the profit on deposits in advance in Islamic banks**

From: Islam on line

Sent: Monday, February 24, 2003

Name: Muhammad Country Bangladesh

**Question:**

Some Islamic Banks in Bangladesh counts the share of profit in advance. How is it possible when the business has not yet been started? How can I be sure that this does not fall within the purview of interest? Please educate me briefly about Islamic banking system and its system of making profit.

**My Answer:**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Muhammad

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Islamic banks take deposits on investment basis, that is the depositor becomes a sleeping partner with the bank and they share profit. this is except for current account that are taken on loan basis and do not get any profit. They provide financing on the basis of sale at a price higher than the cash price, leasing, or equity sharing with companies.

Distribution of predetermined amount (dividend) to depositors or charging such predetermined amount to companies in partnership may be done during the year, these are considered as prepayment of profits. They are subject to adjustment at the end of the year when closing accounts are made and actual profit becomes known. If dividends to depositors or charges on companies on funds given on equity sharing, are paid final, i.e., not subject to adjustment when accounts are made, they are then a prohibited interest.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Returns on deposits in Islamic banks**

From: Islam on line

Sent: February 24, 2003

**Question**

Don't Islamic banks give interest like other banks?

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Naveed

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Omar bin al Khattab, may God be please with him, advised that whoever want to sit and deal in our market must first learn our Fiqh (law). Please brother call things their exact names. Islamic banks do not charge interest and mark up is not interest. If you think that Islamic financing means that people are going to give you their money with nothing to them except your prayers (Du'a), you are certainly wrong! Islamic financing is the provision of money through Shari'ah compatible contracts that give the financier a return otherwise she will not give up her money. That is not interest, even if it is calculated on the basis of the prevailing interest rate (as a result of Islamic banks being a small portion of the market that compete with conventional banks). Interest on deposits in conventional banks is the same Riba that is prohibited in the Qur'an, it doesn't matter whether it is in Pakistan, Kuwait or the USA, and it doesn't matter whether the taker or giver can or cannot work. In Pakistan

**SUBJECT: Buying a house with a bank loan while there are Islamic Banks**

From: Islam on line

Sent: Monday, February 24, 2003

Name: Hiba

**Question**

in the name of god Dear sir; Thank you very much for this opportunity, I need to ask if it is Halal to take a loan from a bank to buy a house for the family, knowing that me and my husband work and we live in a rental house, if we don't take a loan we will never be able to buy a house since we pay rent. . If we take a loan we will be paying almost the same amount as rent for the installment. Awaiting your answer. Thanks and jazakum Allah kheir

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Hiba

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

If you are in Jordan, there are two Islamic banks you should try to deal with them and find a good way to finance your residence in Jordan. Besides in the Muslim countries there are families and friends that may help and always help. You know Riba is forbidden and a house loan from a conventional bank is Riba-based.

If you live in non-Muslim countries that have no Islamic banks, the matter is different. That doesn't mean that the prohibition doesn't exist any more. No, the prohibition is as is no differences between countries and places. But because there is a great deal of hardship for Muslim families who live in the West in finding suitable housing without mortgages and there are very few, and only recently, institutions that offer Islamically acceptable contracts, the prohibition is circumstantially relaxed. If you live in the West and your family need the housing for reasons that include, but not limited to: children education, tax considerations, equity building consideration, neighborhood security, safety and services, etc., and you don't find, at competitive cost, Islamic contracts for financing your house, you may then use conventional mortgage.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Most workers in conventional banks are bad sources of information about Islamic banks**

From: islamonlinenet@hotmail.com

Sent: Sunday, February 02, 2003

Name of Questioner RIZWAN

Country Saudi Arabia

**Question**

DEAR SCHOLARS,ASSALAM-O-ALAIKUM.I SUBMITTED A QUESTION REGARDING INTEREST ,MY REFERENCE NUMBER IS "PYFT3U".SORRY SIR I AM NOT SATISFIED WITH YOUR ANSWER,YOU

SAID THERE ARE SO MANY BANKS WHO ARE DEALING IN INTEREST FREE BANKING.I DON;T HAVE ANY KNOWLEDGE ABOUT THEM.RIGHT NOW I AM RESIDING IN SAUDIARABIA.ONE OF MY UNCLE IS ON A HIGH POST IN SAUDI HOLLANDI BANK ,HE TOLD ME THAT IN SAUDI ARABIA THERE IS NO BANK WHICH IS DEALING WITHOUT INTEREST,WE HAVE LOT OF SEMINARS DICUSSING ON THE MATTER,BUT NO SOLUTION.AS REGARDING YOUR PREVIOUS ANSWER,PLEASE GIVE ME THE NAMES OF BANKS WHO ARE DEALING IN INTEREST FREE BANKING BOTH IN PAKISTAN AND SAUDIARABIA.I WILL BE HIGHLY GREATFUL TO YOU.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. RIZWAN

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Your uncle works in an interest-ridden bank, he is in this sense under the influence, he does not know the difference between interest-based financing and financing the makes profit but does not deal with interest. In the bank where your uncle works they call interest commission, but changing the name does not change substance! Interest-free financing takes sale, lease or partnership as bases for financing. It makes profit and distributes return to depositors, who put their money with the bank on the basis of partnership too instead of the basis of loans as in the bank where your uncle works. If you live in Riyadh go and visit, the Shari'ah advisory office of "Sharikat al Rajihi al Masrafiyyah li al Istithmar" and meet Dr. Abd al Rahman al Atram, give him my personal Salam and ask him how this bank works without interest. In Pakistan there is a Faisal Islamic Bank, and a Barakah or TAwfiq Islamic Bank (both private). I requested you to do some reading homework and instead of that you asked a person who is involved in an interest-based bank! In Egypt there are three of these banks. In Jordan, Kuwait, Bahrain, Emirates, Qatar, Algeria, Tunisia, Bangladesh, Malaysia, Indonesia, and in Europe and USA there are Islamic banks and financial institutions too. But acquiring knowledge needs effort on your part not dependence on you uncle!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: We need to be educated about Islamic banks**

From: fatwae@islam-online.net

Sent: Tuesday, January 21, 2003

Name of Questioner Rizwan

Country Saudi Arabia

**Question**

DEAR SCHOLAR,ASSALAM-O-ALAIKUM I KNOW THAT INTEREST IS PROHIBITED IN ISLAM.EVERY MUSLIM SCHOLAR IS SAYING THAT TAKING INTEREST IS HARAM AS WELL AS DOING JOB IN A BANK IS ALSO HARAM,BUT WHERE AND WHAT IS THE ALTERNATE SYSTEM?IS THERE ANY ALTERNATE SYSTEM AVAILABLE IN THIS WORLD.AS FAR AS I KNOWALL BANKING SYSTEM IS BASED ON INTEREST.HOW CAN A PERSON SURVIVE IN THIS MODERN WORLD WITH OUT BEING

INVOLVED IN THIS SYSTEM.I AM LIVING IN SAUDIARABIA BUT HERE ALSO THE BANKING SYSTEM IS BASED ON INTEREST.IT IS THE RESPONSIBILITY OF ALL MUSLIM SCHOLARS TO DEVICE AN INTEREST FREE BANKING SYSTEMWHICH CAN TAKE UP THE PRESENTLY INTEREST BASED BANKING SYSTEM AND THIS TRANSITION WILL BE GRADUAL NOT ABRUPTLY. I WANTED TO INVEST SOME MONEY BUT I HAVE NO KNOWLEDGE OF ANY BUSINESS, AND IF I GIVE THIS MONEY TO SOMEBODY FOR BUSINESS HE WILL GIVE SOME PROFIT FOR SOMETIME AND THEN HE WILL SAY THAT ALL THE MONEY HAS BEEN LOST IN BUSINESS.I HAVE SEEN THIS THING HAPPENING MANY TIMES. IF A PERSON HAS RETIRED FROM HIS JOB AT THE AGE OF 60YRS AND HE IS GIVEN SOME MONEY FROM HIS DEPARTMENT AT THE TIME OF RETIREMENT(GRADTUITY) AND HE HAS 5 DAUGHTERS TO MARRY,AT THE AGE OF 60 HE CAN NOT DO ANY WORK.NOW IF HE WILL NOT INVEST THIS GRATUITY IN SOME SCHEME IN A BANK THIS MONEY WILL FINISH IN LESS THAN 5YRS,THAN WHAT WILL HE DO?IF EVERYONE WILL STOP INVESTING IN BANKS THAN WHOLE ECONOMY WILL COLLAPSE.IF YOU HAVE ANY SOLUTION FOR THIS PROBLEM,PLEASE TELL ME.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Rizwan

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

There are many Islamic banks in the world today. They live and operate without interest. Please go the nearest bookstore and make some reading on Islamic banking. Your question has been answered hundreds of times over the past forty years. Islamic banks started forty years ago and they are growing at more than 10% every year.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Islamic banks may distribute pre-determined profit subject to adjustment**

From: Islam on line

Sent: Thursday, January 16, 2003

Name of Questioner

Country Egypt

**Question**

I put my savings in an Islamic bank in Egypt (al Masraf al Islami al Dawli - Intenational Islamic bank for investment and development). When I put my savings they made me sign on the rules that guide their investment which say that I will share with them their gain and loss. They say that they will pre-specify an average interest rate and at the end of each term they will update it according to whether they made more or less money. The problem is that I feel this is a fake since they always end up with the same average rate that they pre-specified every time. This has been the case for the past 10 years. I asked about other Islamic banks and they all do the same thing. Is this Riba or not? My other concern is that I heard that these Islamic banks give

loans to investors and apply compound interest (under implicit names) on them which is definitely Riba. Is that true? If so, what should one do with his/her money? If I put it in checking account (whether Islamic or non-Islamic banks) then I will get no income back but they will still be investing it in Riba if they actually do compound interest. What should one do with his/her savings?

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

To my best knowledge, the two Islamic banks in Egypt (Faisal Islamic and International Islamic) do not deal with Riba in all their transactions. For deposits, it is permissible to distribute a predetermined amount subject to accounting of actual gains at the end of an accounting period. But are you sure they do not make reconciliation in the accounts each year? I doubt that the actual rate has always been fixed! Besides several Islamic banks attempt to make the actual distribution quasi fixed or at the market interest rate through adjustments in the reserves they build up for investment risks, which is also permissible and does not mean it has become Riba, it is just a smart way, within the Shari'ah to cope with rough and highly competitive market. Notice that these banks compete with in a market that is dominated by interest-based banks! They do not act free in a market that is all based on Islamic practices.

For their investment, they use the mode of Murabahah very often. It is close to Riba but on the other side of the dividing line, on the permissible side. It is not Riba. Please notice that God in the Qur'an (2: 275) did not deny such similarities but added "And God made Sale permissible and prohibited Riba"

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT:      Depositing in Islamic banks when available**

From: Islam on line

Sent: Monday, January 13, 2003

Name of Questioner M H

Country Canada

**Question**

Assalamu Alaikum, dear scholars, my first question is regarding interest that one accumulates on their savings account...my father has a savings account in Pakistan, on which he accumulates interest...the reason he has an account there is so that he can provide directly for his family there who are in constant need of money to fulfill their basic needs. If my father did not have an account there, then every time a family member would need money, my father would have to have it wired over which is time consuming and quite costly...it just isn't feasible, especially if the family member needs it right away. As a response to a question posed by another fellow Muslim on this website, the advice given regarding bank interest was that the interest money

earned should be regularly taken out and given to charity. In our case, all of the money in the account is going towards charity since certain members of my family are quite poor and the money my father puts into the account helps them meet their basic needs. In light of the information mentioned above, is what my father doing Halal or Haram?

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. M H

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Your question is interesting. It needs certain details that you did not mention; these are regarding the relations to the family members in Pakistan. If they are persons of the close extended family such as your grandparents, parental aunts and uncles, maternal aunts and uncles if your mother shares in the giving, your family may be required by Shari'ah to spend on their basic needs and then what is given them is not considered charity but obligation exactly like spending of you and your siblings. In this case you cannot give them the interest that is forbidden to you because it amounts to keeping it for yourself as it reduces your obligation toward them. This is one point.

The second point is a direct one. Pakistan has several Islamic banks that maintain deposits in saving and investment accounts. They use the funds and distribute return in ways compatible with the Shari'ah. If this alternative is available, it is then FORBIDDEN to put deposits in interest-generating saving accounts in conventional banks. It is always better to give charity out of Halal money than earning Haram and give it as charity!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Main motive for establishing the First Islamic investment bank in Malaysia**

From: Islam on line

Sent: Friday, January 03, 2003

Name of Questioner Om-Samir Country of Citizenship United States

**Question**

My husband and I are less than well-to-do so we just manage to pay our bills. We also help our daughter go to college. Abo-Samir dreams of going to Hajj. I think that if we had a dedicated savings account we could save for such a trip, but we don't want to open a typical USA bank savings account because they earn interest. If we eventually were to open this kind of account, we will not want the interest it earns. What is the best thing to do? Open one? Not open one? And if we do, what do we do with the interest? We would want to give it away in a Halal manner so that our Hajj money would be Halal. So what is the best thing to do with this interest? Saving money is the only way we could do this as we have no rich friends or relatives that would give such a wonderful gift, nor would we expect it.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Om-Samir

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Your case is quite typical of most Muslim families. This was the main motive behind inventing the first Islamic bank in Malaysia in the early 1960s. People save for several years to make the trip to Hajj, many of them under their own mattresses. The Idea of this bank, called Tabung Hajji, is to use these savings in Shari'ah permissible investments and distribute dividend, thus helping account holders accumulate the needed money in a faster way. Unfortunately we don't have an Islamic bank in America that helps us do the same. If opening a saving account helps you accumulate the amount of savings you need while protect the money from loss and theft, go ahead and do it and give away the interest to a Muslim charity. You don't have to tell the charity that the money is interest but it is permissible to tell them. You must not add the interest to your own money, not for use in Hajj nor other needs, because according to Shari'ah this is not yours, but given voluntarily in an invalid contract (from Shari'ah point of view) but you do not return it to the payer to avoid helping it make more interest-based transactions.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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## FATAWA ISLAMIC BANKING 2002

**SUBJECT: Depositing with Islamic Banks**

From: Islam on line

Sent: Saturday, November 30, 2002

Name of Questioner farnaz

Country Bangla

**Question**

Assalamu Alaikum. I want to ask you about Islamic banking system. Bangladesh is a Muslim majority country. But her government doesn't follow Islamic laws. As a result there is interest system in our banks. Some of the families of our country deposit some money in banks and they get some monthly interest from there. That is the only income source of those families. As government is allowing the interest system so should general public be punished in Islamic laws?

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. farnaz

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

The situation you described is unfortunate. In fact most Muslim countries allow interest-based banks and permit payment and receipt of interest.

Interest is forbidden in the Islamic law, Shari'ah. There is no doubt about that. But Bangladesh is in fact lucky in this regard, because it has several Islamic banks. Muslims in Bangladesh can deposit their money in any of these Islamic banks and collect dividends (profit) instead of interest. This is permissible in the Shari'ah.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Replacing interest financing by Islamic financing**

From: Islam on line

Sent: Wednesday, September 25, 2002

Name of Questioner Asma

Country Tunisia

**Question**

My parents are divorced since I was 4 years old and I have been living with my mother in my grand-father's house with my aunts and cousins. Today, after about 25 years, my mother can no longer bear this life especially that she has continuous problems with my aunts and that the house is small. My mother started taking tranquilizers and is crying all the time. Then my father decided to buy for us a house.. And after we agreed with the seller and I can not describe to you the happiness of my mother, my father mentioned something about bank loan but I did not take it seriously because my father is rich and also because at that time I was not praying and did not understand that it was not allowed by Islam. I signed the contract, but formalities took one year, and I was praying in FAJR Prayer that he will not take a bank loan and that God will not let us down (my mother & me). And whenever I try to mention to my mother that we might not have the house, she breaks down. Unfortunately, He did take a bank loan interest based. And now I can not describe to you my fear of God and my despair because the loan is in my name even though I am not paying it. And it is useless that I talk to my father, because my father (May God forgive him) does not pray, and will not listen to me. Yesterday I cried all night, I don't want to live in a house acquired by "Riba". What can I do so that God forgives me?

Notes

please reply to this long question, because this sin is too heavy on my heart and kills me. JAzakom Allahou Khairan.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Asma

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

You are now a mature woman that can make decisions for yourself and what you said of the prohibition of Riba is certainly correct. The sin of the decision on buying the house is not yours

although the house is in your name and you signed the purchase agreement. Your father took a loan from the bank to finance the purchase and gave you the house as a gift. You got the house and the loan is his not yours although the lien is put on the house to the benefit of the bank as a guarantee of the loan. In other words, your signature on the bank's papers does not change the fact that your father made the purchase and the loan.

However, to get out of this conscience pain you have two options: 1) Since everything is in your name you can go to the Saudi Tunisian Finance House, it is an Islamic bank, and you can substitute this bank loan with Islamic financing that is compatible with Shari'ah. You may have to get your father to agree to change payment to the new bank instead of the current one, or to guarantee the payment from your own income. 2) You can vacate this house and rent on your own or buy through the Islamic Bank and live in a new house that is pure of any sin of Riba.

Always pray for the guidance of your father. He can benefit from your prayer and your kind advice with the help of God and do not disturb your mother who apparently had suffered a lot and need now your help as a natural tranquilizer!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Can banks operate without interest (Riba)**

From: Islam on line

Sent: Sunday, September 08, 2002

Name of Questioner Nassor

Country Tanzania

**Question**

1. I know that Riba is a sin. But how should banks operate if they don't take interests? 2. I was planning to start my business but the only way of acquiring capital at the moment is by taking a bank loan. I decided not to the loan for I know that Riba is against the Shari'ah. Does it mean that it is very difficult for us poor Muslims to start our own business or is there another way of getting business loan according to Shari'ah? Thanks.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Nassor

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

As you rightly said Riba is a great sin. God in the Qur'an (2: 279) declares a war from God and His Messenger on those who do not quit and abstain from dealing in Riba. Bank interest is Riba. Banks can run without Riba. They take money from depositors on profit sharing basis and they give financing on either profit sharing, leasing or deferred sale basis. This is the Islamic way of running banks and there are more than two hundred banks in the world today that operate according to these principles.

I know it is difficult for Muslims who live in countries that do not have Islamic banks to get financing in accordance with the Shari'ah. Such Muslim communities are required by our religion that they should establish financing institutions that operate according to Shari'ah, Islamic banks, Islamic finance cooperatives, etc. It is a religious obligation on all such Muslim people. And until then we still must abstain from Riba unless in case of necessity for housing or to save a business, but the rule of necessities do not allow a relaxation of a prohibition for the purposes of promoting a business or to start one.

Wa Allahu A'lam

Wa al Hamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT:      Avoiding Riba for a person living in Pakistan**

From: Islam on line

Sent:   Saturday, June 08, 2002

Name of Questioner Mehtab

Country Pakistan

**Question**

Assalamu Alaikum Dear Sir, (1) If installment price of a commodity is more than its cash price, can one purchase that item on installment basis as the installment price contains an element of interest. (2) Is there a difference between interest and Riba? (3) What is the definition of Riba? (4) How can we avoid it as the entire banking system is based on Riba?

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Mehtab

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Let me begin with your third question: what is the definition of Riba? As mentioned in the Qur'an, Riba is any contractual increment, in kind or in money, determined or will be determined later, above the principal of a loan. The Verse 2: 279 puts as Zulm or injustice (Riba) any thing above the principal. There is another kind of Riba that is mentioned in some Sayings of the Prophet, pbuh, and some Ulama explain that it is a kind of putting a barrier or a fence to make the Riba that is mentioned in the Qur'an more inaccessible. This is called Riba al Buyu' i.e., Riba in sale contracts. Essentially it is the prohibition of trading currency for currency (gold, silver and other currencies) without effecting the delivery of both subjects immediately at the time of contract and/or trading different quantities of same item (wheat, barley, date, raisin, gold and silver).

Question 1: If Riba is an increment in a loan, a deferred/installment sale contract is not Riba based if the price is higher than what it would be had the contract was cash. There is no lending here as you notice. You may say it is similar because it amounts to the same thing. Look closely and you notice differences: 1) a seller is an owner and owners are free to contract their sale at any price and dates of payment as they can agree with buyers. 2) in such a sale, default in any periodical payment does not generate interest for the delayed period, it does in an interest-

based loan. 3) a seller is responsible for hidden defect/impurity of the sold merchandise, a lender has nothing to do with merchandise. 4) sale credit can only be given to a maximum amount of the value of the merchandise, it does not pile nor accumulate in the economy to huge monetary assets since discounting debts is also Riba (though it looks in reverse, but look at it from the angle of the giver of cash who waits until maturity to get larger sum). Therefore in a Riba-free economy debts-based assets are reduced to a maximum of the value of commodity transactions, no more. 5) prohibition of Riba is the only way to prevent spillover of lending for commodity financing to lending for lavish spending and for piling up debts assets.

Now, it becomes apparent that installment sale cannot be made Haram because of the similarity of having to pay higher sum anyway because this sum is a price and the increment in a loan is not a price. Some economists called it a price of waiting or of preference for cash, but can you imagine waiting or preference for cash as other than a thin air?! Do you have a bunch of them to sell, and how about selling waiting at a gas station? Or at a bus stop? Or for a friend to come?

Question 2: you notice from the definition that every interest is Riba but there are other kinds of Riba that goes beyond interest, those mentioned in the Hadith.

Question 4: Pakistan is privileged with many Islamic banks and you certainly can avoid Riba in Pakistan. The problem is for those Muslims who do not have Islamic banks or similar financial institutions that provide financing through contracts that are compatible with the Shari'ah. It is certainly difficult. And when there are pressing needs or necessities, and there are no other ways to avoid a prohibited contract, the Shari'ah certainly looks at such necessities and relax as much of a prohibited matter as needed to remove the hardship provided Muslims make exerted efforts and strive to establish the proper rules, as described in the Qur'an and the Sunnah.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Profit distributed by Islamic banks**

From: Islam on line

Sent: Tuesday, May 28, 2002

Name of Questioner Haroon

Country Pakistan

**Question**

The interest given by banks on the deposited amount, is it Riba & unlawful in Islam?

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Haroon

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Interest given on deposits by conventional banks is the same Riba that is prohibited in the Qur'an. Verse no. 2: 279 mentions that any increment above the principal is a forbidden Riba as it is unjust. Islamic banks give profits to their depositors because they take the money on

investment basis as agents of the account owners on the basis of Mudarabah contract in which the fund owner becomes a sleeping partner of the bank in investing these funds in accordance with the Shari'ah.

Interest earned from conventional banks must be given to Muslim charities and not allowed to mingle with one's own money.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Islamic banks may issue credit cards**

From: Islam on line

Sent: Tuesday, May 28, 2002

Name of Questioner muhammad

Country Bangladesh

**Question**

In what sense credit cards are Halal, while you take money as a credit from a Riba based bank, even though you pay them in full (so called grace period), while Islam forbade involvement of a third person in a transaction, because every time you make a transaction, there is a third party getting paid, because of that transaction, and that is Haram, we still see some Shaikhs say it's Halal, can you define that in the light of Qur'an and Sunnah???

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Muhammad

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

I certainly can define it in the light of Qur'an and Sunnah. Qur'an prohibited Riba and Sunnah prohibited many immoral and or unjust transactions, but my dear Brother, there is no prohibition on transactions that involve third party! Did you get that from the Qur'an or Sunnah. Of course there are certain transactions that involve a third party which are forbidden not because they have three persons but because the essence of the transaction falls in the boundaries of prohibition. Example giving a discount from creditor to debtor is permissible but discounting a promissory note by the creditor at a third party, a bank, and the bank gets the face value on maturity is forbidden because this is interest.

On the other hand, a transfer of money and or debts from one person to another at the face value is permissible, so is a guarantee given by a person to a third party to guarantee a debt or liability of another. And there are many examples of this kind.

The credit card is a new invention and Muslim scholars define it as either a guarantee by the issuer to the seller who accept it or as a transfer of the debt by the debtor to another party, the issuer. Hence, it falls within the permissible transactions. However, there are two problems, one for the issuer and the other for the user because its contract usually contains an interest article if payment is delayed and if cash is withdrawn. Issuing such a card with this interest condition is not permitted in Shari'ah. Islamic banks can't issue it with such a condition.

Accepting it and using it is not the same, especially that it has become very convenient and it remove hardship, for instance in most countries you can't get into a hotel room or rent a car or make a plain reservation without a credit card. Notice that the interest condition is not essential in the credit card, it has an "if": if you don't pay with the not so called but believe me it is real grace period, then the condition is invoked; and if you withdraw cash from a machine it is also invoked. If a user knows for sure that she is not going to allow the interest condition to take place, it is for such a user redundant. We certainly wish it is not there, but unfortunately in most countries there are no Islamic institutions that issue them and even those cards issued in some countries are not really satisfactory because they are limited in scope and usability. In other words you are not signing a loan contract with interest but you are signing a contract that gives you the choice to make it carry interest or not. Consequently if you know for sure that you can use it without incurring any interest you make the interest clause useless and it is permissible to sign such a contract and use the card.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Transactions of conventional and Islamic banks in Egypt**

From: Islam on line

Sent: Tuesday, April 30, 2002

Name of Questioner Asser

country Egypt

**Question**

Al Salam Alaykum I've read about considering banks interest as Reba. And I'm asking you to give me clear vision on this issue that would help me to make the right decision InShaAllah. Banks in Egypt claims to give varying interest which is around 9.5%:10.5% these days. I'm not sure if the bank invests all its money in loans with fixed interest or it invests money also in projects that profits the bank. I would like to know what specific transaction of the bank that is considered Reba. I'm an Egyptian studying in USA, I've no fixed income right now, and I've some money in a bank in Egypt that inherited from my family. The interest of this money represents my main source of income that helps me to cover my living expenses. If banks are based on Riba, then what is the alternative, please advice me if there is Islamic banks that I can invest my money in, I understand that solidifying the money in gold or other fixed assets would not be a right thing to do. jazakom Allah kheir Alsalam alykom

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Asser

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

For the first part of your question: Conventional banks in Egypt make most of their transactions on interest basis and interest is Riba, exactly as prohibited in the Qur'an. Verse 2: 279 mentions that any increment above the principal is Riba. This is exactly the definition of interest in the banking world. Conventional banks in Egypt are not permitted by the banking law to own real

estates, stocks or inventories other than their own offices, furniture and stationary. Their sources of money are from either equity of shareholders or deposits in current accounts or other types of deposits that give depositors interest. The use of their funds is only in giving loans on interest basis. They cannot invest in projects on the basis of equity and what they call investment in projects is done only on interest-based lending contracts.

Banks, all banks, have several other transactions that may not be forbidden: opening checking accounts, payment of bills, cash currency exchange, transfer of money from one place or country to another, etc. There are other non-lending transactions that are also prohibited in conventional banks such as letters of credit because it involves interest too and future currency transactions because the Prophet, pbuh, specifically prohibited currency exchange unless it is all cash.

One more thing: any increment in a loan/deposit contract is Riba whether it is fixed or variable. Variability of the rate of interest does not make it permissible. Please notice too that Interest (Riba) is one of the worst sins in Islam, Allah, Ta'ala, in the Qur'an declares a war from Him and from His Messenger on those who do not quit all and any remainder of Riba.

For the second part of the question: There are 2 or 3 Islamic banks in Egypt: The Faisal Islamic Bank, The International Islamic Bank for Development and the al Ahrām bank (I am not so sure about its exact name but it was a small conventional bank and Shaikh Saleh Kamel of Saudi Arabia bought it and converted it into an Islamic Bank. You can deposit your money in any of these Islamic banks, the largest is Faisal IB, and they use the funds in providing finance on the basis of Murabahah and equity. Why: because these banks were established by special laws that permitted them to buy goods and contribute on equity basis to projects.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Interest-based deposits in the Muslim countries**

From: Islam on line

Sent: Monday, April 15, 2002

Name of Questioner Z

**Question**

I live in a Muslim country. I have kept my savings in that particular category of accounts on which interest is not paid. However I rarely draw any money, as I am saving it for some future plan. The question I would like to ask is should I deposit my money in an interest paying account, and pay the interest money to some poor person, or that would be contrary to spirit of Shari'ah. Best Regards

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Z

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Many Muslim countries have Islamic banks. First, search for an Islamic bank and deposit in it. Second, I wouldn't advise to deposit in an interest earning account, especially in Muslim countries. If it happened that you earned interest, you dispose of it for Muslim charity, to poor and needy, etc.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Interest-based loans for housing in Pakistan**

From: Islam on line

Sent: Wednesday, March 27, 2002

Name of Questioner khalid

Country Pakistan

**Question**

I am interested in buying a house and for this I have to finance it thru a bank. As we all know banks charge interest on the loan they provide and as Muslims we have to stay away from interest. So could you guide me if I am right in my understanding that we have to stay away from any kind of interest. Jazaka Allah.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. khalid

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Yes, Dear Brother, you are fully right. Interest is one of the most grave sins in Islam, it is associated with believing in partnership with Gad and it is the only sin on those who do it Allah, Ta'ala, declared a war from Him and His Messenger, The Qur'an Verse 2:279.

To my knowledge, Pakistan has several Islamic banks, private and public. It also has a house financing public company that uses Islamic contracts. Why dealing with interest for housing in Pakistan?

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Islamic banks in UAE**

From: Islam on line

Sent: Wednesday, March 27, 2002

Name of Questioner JASSIM

Country

**Question**

I have an account with Islamic bank in UAE and that bank gives profit yearly. On this profit some Muslim brother are commenting this is also a kind and different of interest but Islamic banks have termed as profit instead of telling Interest. Kindly make me clear in this regard.

**My Answer:**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. JASSIM

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

The Islamic banks in UAE (Dubai Islamic Bank, Abu Dhabi Islamic Bank and recently the National Bank of Sharja if the latter completed its transformation to Shari'ah rules) abide by the rules of Shari'ah and have respected Shari'ah boards. They make financing in accordance with Shari'ah and the profit they distribute is a Halal profit. It is not interest. And those who accuse them of gaining and distributing interest under name of profit are wrong and must be questioned for such false accusations. Be assured of this my dear brother.

Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**SUBJECT: Islamic windows in conventional banks**

From: Islam on line

Sent: Thursday, March 21, 2002

Name of Questioner

**Question**

Assalamu Alaikum Learned brother in Islam I live in a small African country, where a local financial institution is intent on opening an Islamic Banking Division. I have joined this institution and am involved in the setting up of the department. I have a number of questions In the absence of any other Islamic alternatives, is an Islamic Banking Division acceptable, as the bank is listed on the local stock exchange and is not owned by Muslims? Due to a very limited range on possible investments, is it possible to invest depositors funds in Treasury Bills (One view is that Government Interest and taxes can be offset, as in my country taxation is the second highest in the world and can exceed 40-50%) Are TB's acceptable? And is it allowed to offset the taxes against the proceeds of Government interest-bearing instruments? I do want to ensure that ALL aspects are perfectly Islamically acceptable, and if unavoidable, these are disclosed to the public, where Muslims are a very small minority. jazaaakalah. May Allah Taala guide and protect the Ummah at large. Ameen.

**My Answer:**

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Questioner

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

A) - It is certainly permissible to make a window or department for Islamic financing in a conventional bank with a very basic condition: full disclosure.

Several alternatives can be made:

1) Offer Shari'ah compatible financing; it is giving financing to business using the contracts of Murabahah, Musharakah and Mudarabah, and leasing, certainly without putting any interest clause or penalty in any of these contracts.

2) A window that offers financing and receive deposits. Deposits must be obtained on the Mudarabah basis or in checking accounts with no return (having checking accounts in this department support the department and gives it a little more liquidity) and all use of funds must be in Islamic financing both in contract and in the projects financed, e. g., you do not finance cigarettes or alcohol. This alternative requires autonomy within the bank, at least in accounts, projects and financial statements.

B) - Investment in treasury bonds is Riba based it is not permissible in Shari'ah.

C) - All tax reduction practices are permissible as long as they are legal and do not put a person in violation of Shari'ah. This may include having two legal entities owned by same person or company and make interest deal between them in such a way that ends reducing the total tax burden of both, as long as they are owned by same person.

D) - You cannot use Mudarabah deposits for any thing prohibited, even with full disclosure. These are given on the condition of their Islamically approved use.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Borrowing from conventional banks**

From: Islam on line

Sent: Thursday, March 21, 2002

Name of Questioner Iyazd

Country France

**Question**

Assalamu Alaykum I live in London my parents live in Algeria, they do not have a place were to stay so we hired a place for them but it is too much I want to buy a house for them but I do not have enough money, is it possible to borrow money from the bank here in London, as you know they take interest. Thank you for your time and May Allah reward you inchaa Allah asalem alykum

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Iyazd

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

There is an Islamic Bank in Algeria, why going to a Riba-based bank? I don't see a reason for needing to borrow on Riba in such a case.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Getting loans from banks while there are Islamic banks**

From: Islam on line

Sent: Tuesday, March 19, 2002

Name of Questioner Abdulrahman

Country UAE

**Question**

I am a partner in a commercial transport company. The other partner is not Muslim. The company has been using bank loans with interest to finance purchase of vehicles. What I have to do to avoid Shari'ah violation? For your information Islamic finance is more expensive and will not be accepted by my partner.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Abdulrahman

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

working in partnership with non-Muslims is controversial in the classical Fiqh, exactly because of the reason you mentioned. A non-Muslim partner may undertake actions and make contracts, for the partnership and in its name, that are prohibited in the Shari'ah. Ulama agree however, that such partnerships are permitted if you are sure that no violation of the Shari'ah may be done in the decisions of the partnership.

Interest is Haram, no doubt about it, it is in the text of the words of Allah Ta'ala: You shall get your principal alone, no injustice you do an do injustice done to you. Verse 2:279.

I know in some countries that have only one Islamic bank, dealing with it may be sometimes more expensive, but in the UAE you have three Islamic banks: Dubai IB, Abu Dhabi IB and National Sharja IB, are you sure that all of them are more expensive than conventional banks? It seems to me they shouldn't, they should be somehow in the middle of conventional banks from cost point of view. I know some businessmen who found Islamic banks cheaper. Any way if they are more expensive, you should negotiate with them and try to involve some members of their Shari'ah advisory boards and make such a complain to their Shari'ah boards that unless they really provide quality service they must certainly be competitive with conventional banks.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Overdraft facilities from conventional banks**

From: Islam on line

Sent: Tuesday, March 19, 2002

Name of Questioner

**Question**

I have a problem with Riba in the bank. We are getting a lot of facilities in the bank. over draft and loans but i want to escape all this to clear my self after that, what is going to happen for Islamic bank they can't give me a loan or over draft it will take long time to get all the facilities so shall I stay with the same bank where I am now or I should I clear my self and then I will get

same facility in Islamic bank? I am very sorry I took long to explain. Thank you, jazaka allahu kheyran. I will be happy if u could answer me as soon as u can, plz and give me an idea on what to do? I asked about this aya saying fa' thanu biharbin mina allahi warasulih. shukran wasalamu aleikum warahmatullahi wabarakatuh...that my question it shouldn't put on the browse area

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Questioner,

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

All interest-based transactions with banks are forbidden in the Shari'ah. Sorry I can't help you in giving you a course of action because it is only you who can select your own course of action. But I can tell you what is the rule of Shari'ah in this regard. Overdraft facilities and conventional banks' lending, if they are interest-based as it is normally the case, are forbidden in the Shari'ah. The bank's interest is the same thing as the Riba that is clearly mentioned in the Qur'an and Allah Ta'ala give note of war declaration from Him and His Messenger to those who deal in Riba (interest) and the Prophet, pbuh, says that the wrath is on the payer of Riba, its recipient and its writer, and in another Saying the Prophet describes Riba as the worst sin, he said: Riba has thirty six kinds, the least of them is as (bad as) a man making adultery with his own mother." These Sayings are correct and authentic. The Ulama say that even non- interest accounts with conventional banks may be Haram when there exists an Islamic bank that provides similar services, because the bank will benefit from the balances in your checking any way and a conventional bank benefits from them through forbidden contracts, in a sense you helped!

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Competitiveness of Islamic banks**

From: Islam on line

Sent: Sunday, March 17, 2002

Name of Questioner Mstafa

Country Iraq

**Question**

Assalamu alaikom I live in UK and I want to buy a house. The Islamic banks is asking for higher deposits which I can not afford. Can I take a mortgage. assalamu-alaikom

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. mustafa

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

If Islamic banks do not offer competitive transactions to conventional banks, it means they are not providing the same service, as if they do not exist! The Fatwa does not mean that Muslims

have to submit to a monopolistic treatment by Islamic financial institutions. Hence, if other conditions of the Fatwa about house financing through conventional mortgage are satisfied, yes, you may take a conventional mortgage.

Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**SUBJECT: No necessity to bank with conventional banks in Pakistan**

From: Islam on line

Sent: Sunday, March 17, 2002

Name of Questioner umer

Country Pakistan

**Question**

I am a small businessman need financial help to survive a business recession. I have no property to sell. Problems could be solved by loan from bank. 10 years before under same situation obtain bank loan and discontinued the loan facility after improvement. Under the law of necessity is it permissible to obtain loan from bank. Please advise.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. umer

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Pakistan has Islamic banks all over; there is no law of necessity that requires you to deal with interest-based banks in Pakistan.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Depositing in interest-based banks in Egypt**

From: Islam on line

Sent: Friday, March 15, 2002

Name of Questioner Shereen

Country Egypt

**Question**

Please I wanted to ask about bank's interests for a woman like me who can not work as I have 2 kids at the same time I know no one who could invest for me this money. My question is also please what to be done when my husband also is like me doesn't know anything? Thank you sooo much

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Shereen

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Depositing funds on interest basis in banks is Haram, no doubt about it in spite of what may be said by some people that these are investment. They are loans to banks. You find this definition in the Egyptian Law of the Central bank, please read it.

Moreover, in areas that have Islamic banks, many Fuqaha argue that it is forbidden to deposit even as checking accounts in interest-based banks. You have Three Islamic banks in Egypt, please ask about a branch close to you and place your funds, and tell your husband to do the same, in Mudarabah accounts with one of the Islamic banks.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: House-purchase loans in Pakistan**

From: Islam on line

Sent: Thursday, March 07, 2002

Name of Questioner Omar

Country Pakistan

**Question**

Currently I am looking for a house to buy. Since it is virtually impossible to have the full price of the house in cash, and mortgages involve interest, what would you recommend I do in order to properly pursue this objective? I am not even sure if this type of interest (mortgage) is acceptable in Islam or not, although my inclination is that it's not. I have also inquired about Islamic Banks, but it is hard to find reliable information about them so far. Thank you much, Assalamu Alaikum, Omar

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Omar

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

To the best of my knowledge, there are several private sector Islamic banks in Pakistan, in fact, I believe all banks follow the Shari'ah principle if the last ruling (1999) of the Pakistan Supreme Court has been implemented. Moreover, the Pakistan house Investment Corporation offers several form of Shari'ah compatible contract for house purchase.

Accordingly I find no reason for going to interest-based mortgage. Interest is obviously Haram for housing as well as for any other deals. I find no reasons for necessities in most Muslim countries, especially Pakistan.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Customer services in Islamic Banks**

From: Islam on line

Sent: Monday, March 04, 2002

Name of Questioner Hussain

Country UAE

**Question**

I have an import business, where I import the goods using L/C facilities (Letter of Credit) provided by Reba Bank. I deal with this bank due to many restrictions & limitations exist with the only Islamic Bank in my country in order to provide me with L/C facilities. My question is, is it allowed in Shari'ah to deal with Reba bank as far as I deposit the cash in my company's account before the due date in order to avoid interest charges. The reason behind my question is that I heard from a friend that my L/C contract with the bank is "AQD SAHIH", but the clause which state the interest charges after specific dates is "SHART FASSED", & makes the whole contract "FASSED". Please advise.

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Sahbihi Ajma'in

Dear Br. Hussain

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Are you sure you did not find in the three Islamic banks in UAE (Dubai, Abu Dhabi and Sharja National), any branch that gives as good of a service as that of the Riba bank? Because I believe that if an Islamic bank provides similar services dealing with non-Islamic bank is not permitted, because of a trace of Riba that will reach you there no latter what you do to avoid it! While if Islamic banks charge more or give lower or limited services, then dealing with other banks is permissible.

What you are told is correct. The condition of Riba makes the contract all Fasid. I add however, that if the condition is completely optional, e. g., you pay interest if you do not deposit the amount due within one day, and you are sure of yourself that you shall deposit during that period, the contract is permissible to sign from your side and it is Haram for the other party to whose favor such a condition is put. This becomes like credit cards we use in the west. for those of us who are sure they will not withdraw cash and will pay during the grace period, the contract is not Haram because the activation of the interest condition is left to you and you know you are going to opt for no interest. The contract is Haram from the point of view of issuers of the credit card, and an Islamic bank must not issue a contract with such a condition.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: Differences about Islamic banking**

From: Islam on line

Sent: Monday, March 04, 2002

Name of Questioner Samir

Country Egypt

**Question**

How come that there is some accept the non-Islamic banks and some does not accept that

**My Answer:**

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Sahbihi Ajma'in

Dear Br. Samir

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Our responsibility is to explain the Shari'ah to women and men and it is each person's responsibility toward God to implement what pertains to her/him.

Islamic banks make their contracts within the limits of Shari'ah and from that point of view they differ from non-Islamic banks, but the matters of management and efficiency depend on factors other than the Shari'ah permissibility of contracts. Those who reject Islamic banks because their contracts are Rib and other Haram-free are wrong and they commit a serious sin.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Financing when you don't have Islamic banks**

From: Live Fatwa on Islam on line

Date: Feb 19,2002

Name: Salih

**Question:**

Dear Sheik, We're living in an economy that runs through the function of interests. We don't have an Islamic bank in this country yet. Although we have some Islamic institutions assisting us to acquire a house through what they called "the Islamic way", they claimed to file to the government the conventional way. That means that they must assign a rate to the amount of loan they gave to clients. Therefore, what's the difference? Please shed some light in this matter. Thanks.

**My Answer**

In the name of Allah, Most Gracious, Most Merciful.

May Allah's peace and blessings be bestowed on Muhammad (PBUH).

Dear Salih

Assalamu Alaikum

There is a difference between home financing through institutions that give Shari'ah compatible contracts and institutions that give financing on interest basis. What matters to the homeowner is the contract that establishes her relationship with the finance provider. Worrying about what the finance provider does with the government is outside that relationship. Even in those cases that require such an institution to give you a certificate called interest paid rather than rent or part of the price (as in Murabah) to be used for tax deduction, the contract remains the framework of the relationship between the Muslim home owners and the finance providing institution and not this certificate.

Allah knows best.

Monzer Kahf

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**SUBJECT: What is the alternative to the interest-based banking system?**

From: Islam on line

Date: 2/18/2002

Name of Questioner Nowshad

Country Bangladesh

**Question**

Assalamu Alaikum. I am facing some queries with presently available BANK interest. All these are: 1) Is the present Banking system OK in respect to Islamic Jurisprudence? 2) If we say present Bank-interest is HARAM, we have to think about all the Muslims in our countries who are engaged as employees in Banks as they work with Haram. So, let's be careful about our comments. 3) If we take loan, that is nice in the eyes of present situation. But if we take bank-interest, we feel like taking Haram. 4) Fixed-deposits etc. should also be our point of discussion. So, please help us with your understanding or knowledge. Some banks claim they work on Islamic rules (like Al-Baraka etc.). Can we accept them? If positive, advise us about how we can get those banks' facilities in remote places (Do they allow Internet banking? etc.).

**My Answer:**

Dear Br. Nowshad

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

My dear brother your questions are only half a century late! In the early 1950s these issues were subject of discussion.

YES, conventional (i.e., those that work on the basis of interest) banks are Haram because interest is the same Riba that is prohibited in the Qur'an (Verses 2: 279-280). They are Haram to establish, Haram to own their stocks, and Haram to take interest-based loans from and to deposit fund for interest at, Their CDs (Certificates of Deposits) are also Haram. Over the last 39 years the word has been witnessing the establishment and expansion and increase of Islamic banks at an annual rate that is more than 10%. Bangladesh has at least four Islamic banks the oldest of them is more than 20 year old. Please check the Islamic bank at the website of Islam on line and find out more info about them and whether any of them has Internet banking.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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**SUBJECT: How do Islamic banks work and make profit?**

From: Islam on line

Date: 1/30/2002

Name of Questioner

**Question**

Assalamu Alaikum. I have a question about the Islamic banking system. I was reading about an Islamic bank in my area that gives loans for houses and cars yet they don't ask for any interest in return. And the savings accounts also don't collect interest. So my question is, how do these Islamic banks make profit? Especially if they give loans to people without asking for interest in return?

**My Answer:**

Dear Br. questioner,

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Islamic banks provides finance on the basis of equity sharing, sale (buy cash and sell to customer at higher deferred price) and lease (buy cash and lease to customer to recover principal and some extra during the period of the lease) contracts; and they make money in all three forms of financing.

I don't know about the Islamic bank in your that you described. But all Islamic banks give return to depositors in investment accounts. The system is a bit different from conventional banks. Islamic banks take deposits in accounts they call them investment account because depositors enter into a partnership agreement with the bank that the latter uses their funds to conduct its business and share with them the net return. Islamic banks also accept demand deposit in current accounts, no return is given.

You may find some reference to review in the several websites available on the subject.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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## FATAWA ISLAMIC BANKING 2001

**SUBJECT: Liens on lease debts in Islamic banks**

From: dialogue@islam-online.net

Date: 7/30/2001

Name of Questioner Country Sri Lanka

**Question**

Dear Sir, this is regarding leasing systems. Can Islamic bank mortgage a property for leasing of vehicle? Please give me the answer. If the Islamic bank not available then what we should do for our business and financial help. Best regards.

**My Answer**

Al hamduliAllah wa alSalat 'ala Rasul Allah

Dear Br. Siraj

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

1- Leasing is permissible in Shari'ah, and one may lease a car, a home or any other asset that may last for a relatively long time. Lease creates a debt on the lessee for the rental amount for the whole period of the lease. This debt may be supported by a lien, a mortgage or any other security. All these are permissible.

2- When a Muslim community doesn't have an Islamic bank, it has to create one, it is a kind of "Fard Kifayah" and until it is established, we should always realize that Riba is forbidden, it is one on of the worst sins, and the Shari'ah provides for the cases of necessities, the rule is that necessities relax the restriction.

Wa Allahu A'lam

Wassalam

Sincerely,  
Dr. Monzer Kahf

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We are explaining the situation more.

Assalamu Alaikum. In Sri Lanka, we have an Islamic bank called Amana Investment Ltd. When we go for a leasing agreement with them to purchase a vehicle like car or any other for a value of one million normally they ask for us to mortgage an asset of two million worth (Market Value) and they value for the particular asset to be 1.5 million worth. on this they approve 75% as official value And also this will take a two months time to purchase the car. This is a very difficult procedure for small businessmen like us. On the other hand, the other leasing companies in the island, it is convenient to purchase assets in leasing terms, that is, they normally ask for just two guarantors and within two days time the car could be bought. But the only barrier is that, they include a clause in their contract, that, when the payment is delayed an interest of 2 percent has to be paid. In this situation what is the solution to be arrived at? In Islamic bank, they take no any risk in this connection and at any time from the start date of agreement to the end of it, they hold with them our mortgaged asset, its value is two times more than the car to be purchased. But in other leasing companies, they are taking more risk on this, and they say that they normally do not charge any interest even though the payment is delayed, but they compel us to sign on the agreement that contain the afore said clause. I need to buy a car. But I am not a position to go to Amana Investment in Sri Lanka. What should I do. Please answer my question.

**My Answer:**

Dear Br. siraj

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Two points should be kept in mind: 1) - When we say that one has to deal with Islamic banks, if they exist in her/his area as a first priority, we always mean Islamic banks that provide similar services and similar products. If the Islamic bank in one's area provides services that are way below standards, we would be then comparing apple and oranges. our Muslim financing services users are not required to tolerate higher prices, or substandard services because someone established and Islamic Bank and he/she does not know how to manage it. In other words, if an Islamic bank maintains inefficient management, charges higher prices and rates of markup or provides low caliber services in terms of customer relation, paper work requirement, conditions for financing, or time frame for a transaction, one may act as if such an Islamic bank does not exist at all and the Fatwa of general need (Hajah 'Ammah) applies. 2) - there is a distinctive difference between a penalty interest clause in an otherwise Shari'ah-compatible contract and an interest charging clause, and this difference affects the Shari'ah ruling on it. The example of a penalty interest clause in an otherwise Shari'ah-compatible contract is a clause that imposes interest on delinquent payments in a lease contract. A lease contract may be sound from Shari'ah point of view once it determines the period of lease, the amount of rent (that may include a lump sum and periodical payments). An option given to lessee to return or purchase the leased asset (say a car) at the end of the lease whether at a given price or at the market price at the time the lease ends, is permissible. Conventional leasing companies usually add a penalty interest clause to the effect that if the lessee fails to stand to any of her/his

obligations, she/he is required to pay interest for the delay. True, a Muslim lessor must not put such a clause in a lease contract and normally we don't accept to sign a contract with such a condition in it. But it is also true that when we deal with conventional lessors, we are subject to certain conditions that are to them essential to the contract and they do not accept to offer a lease without such a penalty clause for obvious reasons. Such a penalty clause is not similar to an interest clause in lending since the latter is basic to the contract, the contract itself is based on Riba, while the penalty clause is only protective to the lessor, it does not make the essential substance of the contract, and the lessee has always the choice of abiding by the contractual time schedule, which he/she is required to do anyway, and hence avoid invoking the penalty clause. This certainly makes the penalty clause lesser of an evil and for those persons who know of themselves that they are both keen and able to abide by the payment schedule, it is not forbidden to sign such a contract because it only gives them a choice between a Halal and a Haram and we are always exposed to such choice all our lives, Dunya itself is a home of tests and choices are always given throughout our passing between taking what is Halal or committing what is Haram.

With that in mind, I would say that for those persons who know that they are able and keen to be always on time, so they do not expose themselves to the penalty clause, it is not Haram to sign a contract with such a choice giving penalty clause in an otherwise Shari'ah-compatible lease contract, especially when there are no lease institutions that offer contracts without such a clause.

Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**SUBJECT: Banking with non-Islamic bank**

From: live fatwa on Islam on line

Date: June 20, 2001

Name JUMA country United Kingdom

**Question**

Assalamu Alaikum. As a Muslim, am I allowed to invest my money in a stock market? If not, why? And am I allowed to bank with non Islamic banks and if not why?

**My Answer**

Wa 'Alaikum Assalam wa Rahmatu Allah

Al Hamdu li Allah wa al Salatu 'ala Rasuli Allah

First, investment in the stock market: Stocks are documents that represent shared ownership in a company. It means you are a partner in that company. If the management produces anything that is forbidden, it is producing it on behalf of you the owner because.

The implications of this are:

- 1) A Muslim must not produce anything (commodity or services) that is prohibited.
- 2) Any income generated to the owner that mingled with prohibited earnings needs to be purified by giving away to charity that part that is not permitted in Shari'ah.

Based on that companies are classified into three categories:

a) Companies whose main business is prohibited in the Islamic Shari'ah such as interest based banks, casinos, and porno or alcoholics production.

b) Companies whose main function are permitted and at the same time their management abide by the rules of Shari'ah. The example of this category is Islamic banks and Islamic Insurance companies. Buying their stocks and trading them are permissible within the known rules of sales contracts in Shari'ah.

c) The third covers the very large majority whose main business is permissible such as computer or technology, but its management make some prohibited transactions such as taking loans from banks or depositing cash against interest. Buying stocks in these companies may be considered forbidden because it is forbidden for any Muslim to do any prohibited transaction, no matter how little it would be in relation to the total amount of transactions he/she makes. This is the opinion of many Muslim scholars.

However, there is a group of very learned scholars that consider this opinion very restrictive and very difficult to implement in our contemporary time. This group is lead Shiekh Taqi Uthmani from Pakistan and by Abd al Sattar Abu Ghuddah of Syria. These group argues that if you buy the stock for investment (with the objective of looking at profit in dividend and growth) and you have no way of imposing on the management to abide by the shari'ah rules, it is permissible within certain criteria to invest in the stocks of this third category of companies. The criteria are that the percentage of non-permissible transactions to total business of the company must be small and they suggest a small is not to reach, with regard to interest transactions, 10 to 15 percent. They put a few criteria around that idea of small percentage. These criteria are implanted by the Dow Jones Islamic Market Index under the supervision of a group of Learned Islamic scholars. This is available via the Internet.

The second criterion is the necessity of cleansing ones income the stacks of these category of companies. One must give for charity a portion of ones gains from investment that equals the estimated percentage of returns generated from prohibited transactions made by the management. The objective of these cleansing criteria is to keep ones own money pure from the prohibited and unlawful income according to Shari'ah.

Dealing with banks in UK: It has become very cumbersome and inconvenient to stay away from dealing with banks in our contemporary world especially for the Muslims living in the west. The rule is that where there are no Islamic banks it is permissible to deal with non-Islamic banks or Riba based bank as long as the transaction is not forbidden in Shari'ah. This means you may have a checking account; you may change currency, do transfer, and other non-interest related transaction with a conventional bank. If it happens that interest is generated to your account, you have to give away that amount of interest to charity.

Wa Allahu A'lam

Monzer Kahf

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**SUBJECT:      Establishing Islamic banks in the West**

From: live Fatwa Session on Islam on line

Date: June 20, 2001:

Name Fahad - United States

**Question**

Assalamu Alaikum. What practical steps can Muslims take to begin to create Islamic financial institutions in the West? How can these institutions be integrated with the interest based system that currently exists?

**My Answer**

AssalamU Alaikum wa Rahmatu Allah

Al Hamdu li Allah wa al Salatu 'ala Rasuli Allah

This question, brother Fahd, is not a fatwa question. However, the fatwa is that Muslims who live in the West are required to establish financial institutions like all other needed institutions that confirm with Islamic Shari'ah wherever they live. In the US we are required to create Islamic financial Institutions. The steps to create them may depend on the time and place. Obviously we have to follow the legal steps for incorporating and licensing such an institution. Easier institutions to establish would be Credit Unions and house financing Cooperatives.

The first and most important condition is to have the will and reasonable number of people and resources. Then, you consult the department of financial institution to create a legal entity. Wee have some examples, the Islamic house finance cooperative in Toronto, Canada and the Islamic Credit Union in Philadelphia, PA. Both groups would be helpful with their experience.

Wa Allahu A'lam

Monzer Kahf

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**SUBJECT: A student loan from an Islamic bank**

From: dialogue@islam-online.net

Date: 3/26/2001

Name of Questioner Suleiman

Country Somalia

**Question**

I GOT AN EDUCATION FINANCE LOAN FROM ONE OF THE ISLAMIC BANK. BUT FOR 15000 DHS. I HAVE TO PAY 2000 EXTRA IF IT IS FOR ONE YEAR AND ABOUT 600 IF PAID WITHIN 6 MONTHS. PLS. TELL ME IS THIS HALAL (MURABAHA) AS THEY CALL IT IN THE BANK.

**My Answer:**

Dear Br. SULEIMAN

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

The way you described this contract does not seem to me as any of the contracts of any of the Islamic banks. If you got cash from the bank and you are required to return cash plus an extra 2000, this is not a deal Islamic banks do! Could it be a bank in a Muslim country? The way you described the contract, it is not Murabahah.

Murabahah contract is permissible and practiced in Islamic banks. The bank buys a commodity on your request, or a service such as renting an apartment, after it gets possession of the commodity or receive the key for the apartment it sells it to you at higher and deferred price or rent for the service. It may work in education if it can be arranged with a university that a bank buys its credit courses and sell them to students at deferred payments, but to my knowledge no Islamic bank practices that yet because it requires arrangements with education providers and certain governmental control and supervision.

Br. Suleiman, are you sure about the contract and the entity you are dealing with?

Wa Allahu A'lam

Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**SUBJECT: Getting financing from Islamic Banks**

From: dialogue@islam-online.net

Date: 2/19/2001

Name of Questioner Dina

**Question**

Al Salam Alaikum. Is it acceptable to deal with Islamic Bank for finishing our home which is under construction and in this Economic situation we live in Palestine we can not finish it? So I heard that the bank will buy construction materials and we pay in installments. Please tell me if this is acceptable or not.

**Notes**

Islamic Bank which I mention is called Islamic Cairo Amman Bank, or other Islamic Banks in Palestine. We are in need to complete our house as we r living in rented old house, and since 8 months we did not do anything in our new house.

**My Answer:**

Dear Sr. Dina

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Yes it is certainly permissible to deal with Islamic Banks in Filisteen. The transaction you described is called Murabahah. It is permissible. The Islamic Bank buys the materials from their seller on cash basis and you buy the same from the bank on installments basis. It usually begins with mutual promises that you request the Islamic bank to buy the materials and promise to buy them from the bank after it gets them.

This is the standard form of transaction all Islamic banks deal with.

But are you sure, Sister, that the Cairo Amman bank is Islamic, I never heard of it as Islamic, I know you have the Islamic Bank of Palestine in Ghazza which was established a few years back. I ask this because I know all Islamic banks have Shari'ah Boards that supervise their transactions from Islamic point of view, so you do not worry when you deal with any Islamic bank. Does the Islamic Cairo Amman Bank have a Shari'ah Board? Is it a bank that converted to Islamic recently? Or is it a conventional bank that opens a window or a branch for Islamic transactions? In the latter cases just be sure it has a Shari'ah Board and if not you need to be sure that the contract format has been seen and approved by a respected Shari'ah scholar. I say that because some conventional banks in some Arab countries offer "Islamic transactions" that are not really screened by any Ulama and consequently they may have some serious errors from Shari'ah point of view.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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# FATAWA ISLAMIC BANKING 2000

**SUBJECT: Depositing in conventional banks**

From: scitech@islam-online.net

Date: 9/12/2000

My Dear Brother who did not give his/her name

Al Salamu Alaikum WA Rahmatullah wa Barakatuh,

**Your question** is about putting money in banks, you did not mention where and under what circumstances.

**My Answer:**

Al Hamdu li Allah wa al Salatu wa al Salamu ala Rasuli Allah,

Any conventional bank certainly uses money deposited in it to its own benefit. However these deposits cost the bank money to maintain their accounts and transactions, Several points should be made clear:

1) if you are in a Muslim country and there is, at least one Islamic Bank that provides services, generally of the same qualities as the conventional banks , at that Islamic bank is accessible to you without much additional effort and cost, (a little additional effort and cost is always tolerable), it is then Haram to place funds with the conventional bank, whether in current deposits (that does not generate interest) or in timed deposits and saving accounts (that generate interest).

2) If you are in a Muslim country that does not have an accessible Islamic bank , or in a Muslim community , as a minority, and there is no Islamic bank too, and if you need the convenience of having a bank account for the deposits of your income checks and the payment of bills and for safeguarding the funds, as our case here in the United States,

We MUST first always make sufficient efforts to establish an Islamic bank that allows us to have the convenience we need without having to deal with a Riba-ridden business establishment (a conventional bank) , this is a Fard Kifayah , i.e., all Muslims who are able to do it are required personally and each one of them is required by Shari'ah to cooperate with others to establish such an Islamic banking institution, and whose of us who do not undertake this responsibility are sinful as long as they can do it and it is not yet done. Second, until an Islamic bank is established, we are permitted, out of this general need that stands equal to individual necessity, to make necessary transaction with a conventional bank , and we keep our seeking the forgiveness from Allah, the almighty, we keep our relation to minimum that we need and if any interest comes out of such transaction, we MUST give it away for charity, preferably through the Islamic center, and we do not consider this giving part of our Zakah, nor it is a Sadaqah, it is in fact nor our money because interest is Haram and it is not an earning to Muslim, we give it away because we have to keep our own money pure from it.

3) if you can keep your money in a safety box without having to bear the inconvenience of needing to write checks and cashing checks of income and receipts and having salary transfers come directly to your account, and you are willing to make the payment of the fees of the safety box, you may then do that, but remember that this is a serious inconvenience for most other Muslims, hence do not object to their having current accounts with these banks.

Wa Allahu A'lam

Wa al Salam  
Dr. Monzer Kahf

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