



## CURRENT SCENARIO OF ISLAMIC BANKING

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### ABSTRACT

*The present study has been made to give detailed description of current status of the emerging Islamic banking in the modern world. The study contains the facts and figures regarding the Islamic banking system which has been work according to the Islam and Muslim Shari'ah (Muslim law). The present study contains secondary sources of data, which is collected from journals, books, research papers and official reports and religious books of Islam.*

**Keywords:** Islam, banking, world, Muslim, religion.

### Introduction:

The recent past has witnessed a growing interest of the Muslim Intelligentsia in the economic teachings of Islam. For survival of any society or civilization, there should be a sound and well-managed social, political and economic system. It is the integration of the socio-economic-political system which makes a civilization to go. Presently there is dominance of western culture on whole of the world. People throughout the world are happily and anxiously accepting the western doctrines whether it is social, political or economic. But every man-made system comes with its drawbacks and ultimately meets its end.

The creator of the whole universe, Allah (swt) has aptly blessed us with his Socio-Political-Economic system. But it is we who are to blame for not accepting and adopting the systems of our Creator rather running after the fallacies of west. Present day World Economic Order is wholly dependent and superseded by interest—which goes against Allah's (swt) and His Messenger's (saw) teachings.

### Objectives

- ❖ To study the function of Islamic banking in present world
- ❖ To observe the present circumstances of Islamic banking

### Research Methodology

The present study is mostly based on secondary sources, but at the same time an attempt has been to verify the information from variant sources which were available to the best of knowledge. Various articles, comments, lectures (both audio and video) of Islamic as well as non-Muslim economists and scholars have also been used. Besides this a handsome amount of information has been gathered from various websites on internet.

### Main idea

Islam is the complete way of life as Allah (swt) says in Quran: *"If anyone desires a religion other than Islam (Submission to Allah) never will it be accepted of him; and in the Hereafter he will be in the ranks of those who have lost all the spiritual good"* (Al-Quran Ch 3; V 85)

Over the last few decades, the Muslims have been trying to restructure the economic system on the basis of Islamic Principles. At the same time, let us be aware of the fact that to change the present day World Economic Order or to live apart from it is a cumbersome task, full of hurdles at each and every step. Muslims strongly feel that the political and economic dominance of the west during past centuries has deprived them of the Divine guidance, especially in the politico-economic fields. Therefore, after acquiring political freedom to some extent, the masses are striving for the revival of their Islamic identity to organize their collective life in accordance with the Islamic teachings.

Islamic banking system is one of the important areas of Islamic financial system. Islamic banking is also known as 'Participant Banking'. It is the system of banking activities that is consistent with the principles of *Shari'ah* (Islamic Law) and its practical application through the development of Islamic economics. The principles which emphasise moral and ethical values in all dealings have wide universal appeal. *Shari'ah* prohibits the payment or acceptance of *Riba* (interest) for the lending and borrowing of money, as well as carrying out trade and other activities that provide goods or services contrary to its principles.

Islamic banking has the same purpose as conventional banking except that it operates without interest and in accordance with the rules of *Shari'ah*, known as *Fiqh-ul-Muamlaat* (Islamic Rules on Transactions). The principle source of the *Shari'ah* is the Quran followed by the recorded authentic sayings of Prophet Muhammad (saw) known as *Ahadeeth*, followed by *Ijmah* (consensus of

community learned scholars) and *Qiyaas* (Independent reasoning of an Islamic Scholar and Custom).

A number of economic concepts and techniques were applied in early Islamic banking system, including bills of exchange, *Mufawadah* (Partnership) such as *Mudarabah* (Partnership with predefined shares) and *Al-Maal* (Forms of Capital), *NamalMaal* (Capital accumulation), etc.

**Current scenario**

There is no denying the fact that the scope of Islamic Banking is undoubtedly vast and expanding. Today Islamic banks have more than 300 institutions spread over no less than 51 different countries. In addition to this there are about 250 Mutual Funds that comply with Islamic Banking Principles. It is estimated that over US \$822 billion worldwide Shari’ah-complaint assets are managed. (The Economist 12-11-2009) Shari’ah-complaint assets reached about US \$400 billion throughout the world in 2009, according to Standard and Poor’s Ratings Services, and the potential market is \$4 trillion. At present there are Islamic Banks in the following Countries:

S.No.	Country	S.No.	Country
01.	Afghanistan	27.	Lebanon
02.	Algeria	28.	Liechtenstein
03.	Albania	29.	Luxembourg
04.	Argentina	30.	Mauritania (Islamic Republic of Mauritania)
05.	Australia	31.	Morocco
06.	Bahamas	32.	Malaysia
07.	Bahrain	33.	Nigeria
08.	Bangladesh	34.	Palestine
09.	Brunei	35.	Philippines
10.	Cayman Islands	36.	Pakistan
11.	Cyprus	37.	Qatar
12.	Denmark	38.	Russia
13.	Djibouti (French name) and in Arabic JumhuriyatJibuti.	39.	Saudi Arabia
14.	Egypt	40.	South Africa
15.	Germany	41.	Senegal
16.	Guinea	42.	Sudan
17.	Gambia	43.	Switzerland
18.	India	44.	Srilanka
19.	Indonesia	45.	Thailand
20.	Iran	46.	Tunisia
21.	Iraq	47.	Turkey

22.	Ireland	48.	Sub-Saharan Africa
23.	Jordan	49.	U.A.E. (United Arab Emirates A set of Emirates including Dubai, etc.)
24.	Kazakhstan	50.	U. K. (United Kingdom A set of Countries including England, etc.)
25.	Kuwait	51.	Yemen
26.	Kibris Turkish Republic (Turkish Republic of Northern Cyprus)		

**Types of Accounts in Islamic Banks**

The mechanism of Islamic banking which is based on the principle of partnership is free of interest. Therefore, the question of paying any interest to depositors or charging any interest from clients does not arise. It can be started with new private banks, by the people or by the government. Under the Islamic scheme of banking, there may be two types of depositors. The first type of depositors, who can deposit their surplus funds, may be allowed to withdraw their funds anytime without any notice. This type of depository system is for safe depositing only, not for investment in any productive activity where risk is involved. In the case of such deposits, the bank may recover *Zakat* and service charges from its depositors. This taxation on idle funds is justified because it checks the tendency to hoard cash in idle form and provides stimulus for investing in productive activities. The second type of depositors will not be in a position to withdraw their funds without notice. Their surplus funds may be invested in productive affairs on a short term as well as long term basis. The bank will not charge anything from these depositors; rather they will be allowed to share the profits or losses of the bank proportionately at the end of the financial year in a form similar to that of dividends. The Islamic bank, however can raise funds, if need be, by inviting investment for a period from one year to five years or seven years or more. Even in western countries some of the banks issue investment certificates or investment bonds on a fixed rate of interest. But in an Islamic System of Banking these investment certificate holders will be eligible to share the profits but not interest.

Islamic banks generally have three kinds of deposit accounts: current, savings and investment. An Islamic Bank can open these accounts for almost all types of clients and customers like individuals, partnership firms, business establishments, trusts, *Wakf Boards*, companies and committees dealing with lawful business and other activities.

**Current Accounts**

Current or demand deposit accounts are virtually the same as in all conventional banks. These are meant purely to meet the transaction needs of the depositor and hence are not entitled to any profit from bank. In addition, the bank may also levy certain charges for maintaining the accounts in form of service charges. Keeping in view the nature of these accounts the deposit is guaranteed as they are kept by the depositor for the purpose of safe keeping of their deposit.

**Savings Accounts**

Savings deposit accounts operate in different ways. In some banks, the depositors allow the banks to use their money but they obtain a guarantee of getting the full amount back from the bank. Banks adopt several methods of inducing their clients to deposit with them, but no profit is promised. In others, savings accounts are treated as investment accounts but with less stringent conditions as to withdrawals and minimum balance. Capital is not guaranteed but the banks take care to invest money from such accounts in relatively risk-free short-term projects. As such lower profit rates are expected and that too only on a portion of the average minimum balance on the ground that a high level of reserves needs to be kept at all times to meet withdrawal demands.

**Investment Accounts**

Investment deposits are accepted for a fixed or unlimited period of time and the investors agree in advance to share the profit (or loss) in a given proportion with the bank. These are the Fixed Deposits or Term Deposits. In these types of accounts, the Capital is not guaranteed. Islamic banks can also mobilise savings for deposit certificates. These have the advantage of being marketable. The holder can liquidate them whenever he likes, but the funds would continue to be with bank till the maturity of the certificates. A number of instruments have been designed to mobilise savings from individuals and institutions.

Besides accepting these deposits from customers, there are other banking services which are offered by Islamic banks to their customers such as money transfers, bill collections, trade in foreign currencies at spot rate etc. where the bank's own money is not involved are provided on a commission or charge basis. In respect of these profits do not constitute a feature. Banking activities which normally entail claim of service charges (not to misunderstand as interest) are designated as *Joalah*. So we can say that *Joalah* is a service contract.

**Conclusion**

Since the concept of Islamic banking is in emerging phase and much has to be done in this direction to properly explore this subject. On every stage challenges and problems are faced by Muslim *Ummah*, and we as Muslims have to face these problems and offer solutions. We have to be the part of the solution and not the problem. Same is the case with economic system. Today whole world is looking for an ideal economic order. What better system

can we have than proposed by the creator Himself? Our duty is to only explore and complete the set of rules and regulations governing our economic life. The object of the Islamic economic structure is to ensure the greatest good to the greatest number. This entails seeking of universal welfare, i.e. welfare of all mankind.

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