

# “THE PRINCIPLES OF ISLAMIC BANKING AND FINANCE”

Tosaporn Mahamud.,Ph.D

Centre of Islamic Studies, Kasem Bundit University, Bangkok ,  
tos-49@hotmail.com

**Abstract— In universal system of economics, there is no God involvement but in the Islamic system there is a role of God in the economic system. In banking and finance, the scholars of Islamic economics fundamentally believe there are no interest rates. The modern financial system completely based on profitable with interest rates. According to Islamic principles, the main aim of banking and financial institutions to provide welfare of the society without use of interest rates. This paper deals with understanding the concept of interest rates in Islam and explores the ideas from many Islamic economists on Islamic banking and financial system..**

**Index Terms— Banking, Economics, Islamic etc.**

## I. INTRODUCTION

Islamic Bangkok and financial is ble to meet the need of introducing to the society. Allocation focuses of modern economic today. Economic as study of choice looks at the behavior of people in managing scarce resource. To manage them well should require sound knowledge. When decisions are made by sheer guesswork and connection an efficient way to allocate resources is hard to come by. as resources are not available in abundance it should be allocated with care.

Islamic economic as a subject is relatively new in Thailand university but practically unknown in corporate business. People may have heard about Islamic banking and finance but has been limited discussion on Islamic economic and many may think that. The same it true for Islamic economic but Islamic economic as a discipline is still a baby. It has relied a lot on Islamic commercial law with its undue emphasis on the prohibition of Rib(ausury)

The general position that interest is riba seems unchallenged today in view of the rapidly expending Islamic banking services in Thailand. Islamic facilities are available in most commercial merchant bank and finance companies. The inte-bank money market runs on mudarabah and bay' al-inah while Islamic private debt securities. Such potential development indicates that effort to integrate religrate and business has seen some success. Despite the good news critical observers are still wondering on what basis interest is prohibited. Critical views come naturally when people's expectation turns sour. People are made to ssume that interest is equal to riba but they are not well informed what is behind the sanction why interest is equivalent to riba (Saiful Azhar Rosly, 2005)

The principles of Islamic economics were based on Quran and there is saying of Prophet that the basic principles of Islam on the development of welfare of all status and ages through the economic integration. According to the universal definition of economics is to use available limited resources in most efficient manner. But in Islam, this universal definition of economics not applicable because the resources drive from God and we cannot measure what Lord provides which cannot be limited (Rauf A. Azhar. 2010).

Economic output depends on togetherness of shareholders, depositors, investors and borrowers as partners and with capital and labor. Income generates from operations of banks would be equally distribute among partners and it reduces time of operations if it done contract together. These operational principles apply not only to banking sectors but it also uses in other sector of economy such as agriculture, industrial, commercial as well as international financial affairs. It is important to be with the principle of profitability without any interest is basic rule of Islamic banking (Kabir Hassan, Michael Mahlkecht, .2011).

There is conflicting opinions on interest among Islamic economists scholars. Islam itself is the same in this regard and despite the vedic verses, saying of the Prophet clearly categorically mention the concept of interest especially for when businesses based on investment. Under this principle, parties involve set profit margin or return on fixed amount regardless of joint venture agreement so there is no fairness. Islam completely forbids on receiving of interest payments. (Saiful Azhar Rosly.2015)

There are different Islamic school of thoughts such as Hambali Hanafee Mali'kis and Sarfee still debate on earning related interest. Some schools among them use their views in Southeast Asia and some are applied in Middle East and Europe. However, some details are matching enough and still debate being happen on some areas such as credit card and profit on sales. Most of things related this concern from one of the Muslim country, Malaysia but there is no proper studied has done the country like Thailand where Islamic economists and bankers are involved both directly and indirectly in the Banking and Finance sector. This paper is to learn knowledge of Islamic Banking and Finance and use in existing system in Thailand.

## II. OBJECTIVES OF THE RESEARCH.

- To study and analyze the operational guidelines in the areas related to the religious principles of the Islamic financial institutions.
- To study the cause of the problem from many different opinions in light of the Islamic Economics experts.
- To understand the problems of knowing the difference with outcome.

## III. THE RESULT IS EXPECTED TO BE COMPLETED WHEN THE OPERATION IS CONCRETE AND INDICATORS OF THE PROJECT TO BE SUCCEEDED.

- To understand the guidelines in various fields such as principles of financial economics, and Islamic Banking.
- To understand the causes of problems from differences in views of economists to people of religion and the Islamic financial institutions.
- Acknowledge the defects occurred in the transaction vague about serving with interest.
- Acknowledge the problem about the arguments and the decisions are between people with comments and services in the form of Islamic Finance.

## IV. THE RESEARCH CAN BE APPLIED TO THE FOLLOWING ORGANIZATIONS

- Financial system of Commercial Banks- with the international in Islamic perspective.
- Islamic Bank of Thailand
- Islamic Cooperatives
- The religious organizations related to business.
- Islamic finance credit groups that are not listed as a cooperative.
- Educational institutions in economics, business administration, finance and banking.

## V. RESTRICTION OF MODERN FINANCIAL INTEREST IN ISLAM

There are differences in opinions among Muslim scholars on the term of interest. Sometimes the term of interest interpret differently through their understandings and opinions which use in existing Islamic finance system. It leads to an interesting perspective to create economic consequences because odd transaction from the principles of Islam which is cause of concern.

According to study of phi Al Pasco on the restrictions of interest reveals that interest is not the principle of reconciliation. From this study fully verified the facts which mention in the Holy Quran. According to Islamic principle, the equally distribution of economic wealth, social justice and revenue is best form of social reform. In Islam, economic interest is fully restricted and it leads to positive impact on

From different ideas of economists, the system of interest to provide a platform for greedy financiers which is not possible in the perspective of Islam for taking interest from operation of business. Islamic economics is attempting to create an honorable life with fundamental of economy which equally observes when life goes with Islamic principles of morality.

The value system does not work in modern economic system which is totally contradiction with Islamic based definition of interest. From ethical economics perspective, it is necessary to adopt the Islamic system of interest in the context of mechanism of modern economics system (Rodney Wilson.2012).

## VI. CONFLICT ON THE PRINCIPLE OF INTEREST IN ISLAM

Conflict occurs on the principle of interest in Islam not due to meaning or understanding of interest through translations of Quran done by different scholars. These different meanings of interest create problem when it comes to practice. In this way the subject of interest in Islam is challenging to the Islamic economists.

Business operations in the Islamic financial institutions consider the interpretation of the word of interest from different views of the quoted scriptures. Al Qur'an and the words of the prophet discover the cause and solution to the valid transaction. The main the problem of Islamic financial institutions is that they do not reach proper understanding of religious perspective during the time of implementation at the executives of financial institutions for best performing.

The executive of financial institutions intend to define lending dividend is a cause of controversy because the lender determines profitability.

In financial institutions, loans are like investment and there is no guarantee of profits occurs except in the case of building even having proper treatment and survival. The fundamental of marketing tells about satisfied investment runs on loan plus interest which is strong argument of financial capitalism. Profits are in uncertain due to discrimination in transactions. For example of Lamar industry both domestic and international business there is clear of interest but in realizing the vision it is unable to make it (Saiful, Azhar, Rosly 2005).

## VII. LEGAL THEORY OF INTEREST IN THE GLOBAL FINANCIAL SYSTEM

The current economic structure determines interest and international financiers interpret the disproportionate financial burden and ready to bear. Market mechanisms are defined by trade monopoly but Islam does not approve and create remodel with adverse impact on capitalist economy but difficult to comply with Islamic principles. Adaptation makes a difference in the system if apply directly to the market operation of the product which is desirable to utilize that controls banking system where lending interest rates generate

works for capital markets with broad impact. And also exchange rates of all transactions that occur in the future.

The existing market system creates profound impact on incomes' interests and fully commitment for monetary and fiscal policy. The monetary policy is designed to create benefits for financial institutional actions to cut interest rates or a reduction in the rate of profit to conduct business but the Islamic economic system does not follow it. The Islamic economic system is based on the property right and freedom of the occupant rather than capitalism and socialism. There are differences between modern and Islamic for premiums benefits.(Michael Davis, Andrew Stark 2001).

#### VIII. CONCLUSION

The Conclusion has been drawn through the above discussion on the basis of different perspectives on problems of banking and finances from the arguments among scholars. There should be proper transaction of progress by financial institutions for the society as whole including system based on Islamic principles. A society at large needs to understand the term of interest especially Islamic perspective. The Islamic economic system does not follow existing market system which is fully commitment for monetary and fiscal policy and at the same time Islamic economic system is based on the property right and freedom of the occupant rather than capitalism and socialism. Business operations in the Islamic financial institutions consider the interpretation of the word of interest from different views of the quoted scriptures. Finally, every perspective of business is important to offer social inclusion based on principles of economics, banking and Islamic finance.

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