

Unfair to Islamic Banking & Finance

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 December 17, 2006

At times the widespread illusory viewpoint of a doctrine compels other system of belief to be misinterpreted or misunderstood. Many subjects and issues related to emerging Islamic Banking & Finance (IBF) sector are seen frequently from the perspective and essentials of conventional banking and finance (CBF). The shadows of CBF are not allowing a true picture of IBF to come into view. To introduce and promulgate a differentiating line of clarity on each such stance is due on the part of IBF players and promoters.

It is more than just comprehensions, the dynamics and aftermaths of conventional system have also created a difficult situation for IBF to deal with, while adhering to its own essential tenets. The prime and complex dilemma in this regard is the value matter of money. Here is just a small effort to encompass and highlight this particular topic; the issue is very genuine from the IBF point of view.

In addition to the well known three functions of money, i.e., the “*unit of account*”, the “*medium of exchange*”, and “*store of value*”; an extra bizarre function is now almost associated with money, and that is – its “*regular depreciation*”. This added feature is regular mainly because of Riba (*interest, usury*), while the depreciation factor may include other occasional element(s) beside Riba. For instance any one or a mix of following may be a partial cause of depreciation; i.e., creation & supply of money, natural inflation, taxation, official devaluation of currencies, and market forces maneuvering with different currencies etc.

One fixation is certain - “**regular depreciation**” of money has a must source, i.e., Riba (*interest, usury*).

The long recognized sense of money has been corrupted with this additional feature, which is severely upsetting IBF *modus operandi* because of the different code of practice they observe than CBF.

Although, the two doctrines are quite different on the basis of belief and rules of business but money is commonly handled by both – the conventional banking and finance as well as Islamic operations. It is like two teams playing a game with one ball in same ground with two different sets of rules. One can imagine what kind of hullabaloo and confusion will be there in the playground. *Please don't suggest*, they could neither have two separate grounds nor two own balls of different colours (~kingdoms of economy nor different monies).

Anyway, coming to the point again let us discuss the value matter of money as perceived differently from conventional and Islamic rules of business.

Conventional Rules of Business

1) Money transactions are based on Riba (*interest, usury*).

The factor of Riba (*interest, usury*) then produces inflation that is a CBF measure of the loss in money value or depreciation in money. Although inflation is a vague measure but is roughly enough to take into account for onward money computations from the CBF point of view.

2) Loss of Value Adjustments.

As the money used in previous transaction has lost some of its value hence to make the new transaction feasible (profitable), naturally it is required to consider the previous loss factor. Therefore it is expected to see various factors or components in a resulting money transaction in lieu of risk, adjustment, yield etc. For that reason, the driving CBF tool of Interest has given birth to new divisible branches of Interest known as “nominal interest”, “real interest”, and “effective interest” etc. The conventional system has no problem in developing any kind of formula or a mechanism supporting their operations that revolves around Interest, counts risk and serves the purpose of profitability.

The money is corrupted by CBF
 Corruption is adjusted by factors in Interest
 (Interest corrupts money and adjusts value)
 Therefore,
 No cries against “depreciated money”
 There is no issue of “how to compensate the loss of value”

Islamic Rules of Business

1) **Money transactions are not based on Riba (*interest, usury*).**

Therefore, a transaction conducted by IBF has no role or contribution in the depreciation of money. Still, the money is devalued by the act of CBF transaction involving Riba (*interest, usury*). The size of IBF part is so small as well (as compared to CBF) that it can neither dilute the loss of value in money.

2) **Adjustment and Value Matter of Money**

The money used in an IBF transaction does not carry the same value when returned to its owner after completing the transaction cycle for the same reason as mentioned here before. It is very natural to demand some adjustment mechanism for this loss of value in money. There is no such method available right now.

The unavailability of the “value adjustment method” in IBF is making a room for the considerations to use the same mechanics as used by CBF and that is the tool of Interest (where its branches are not different).

This is a definite matter of concern from the Islamic point of view as to what does it mean? Is it so simple? What could be its implications? Is it conforming to Islamic tenets? Let us further draw a picture to clarify this consideration as below:

1) **IBF does not deal in Interest in the first instance while CBF does.**

2) **The requirement of “value adjustment” will force IBF to incorporate or use Interest (in any of its form) from the second and subsequent occurrences.**

- 3) This Interest will behave exactly in similar manner as it will behave in the first place, although it will provide a compensation for the loss of value in money but will be responsible as well for the further creation of Inflation, the devaluation of money, and scarcity of money subsequently.
- 4) The first occurrence is once only, the rest are same as the Interest based transactions, the only difference is that - here Interest is not used for profit making but for the compensation.
- 5) If it is the only consideration to compensate the money owner for the loss of value in his money at return, then it is achieved, but what about the moral fiber and effects of Interest that this act of compensation will make.
- 6) If it is argued that no “profit” is made with this Interest, only compensation was the motive, therefore it shall be justified. It will translate into a sense that the use of Interest “not for making profits” is justified.
- 7) Making profit is not prohibited from Islamic point of view, but it is rather prohibited with the use of Interest. Thus, why the compensation with the use of Interest shall be considered justified?
- 8) In order to just compensate the loss of value in money of the owner; will it be logical to say that what is prohibited is Riba not the kind of Interest that is used for the compensation? The rationale for not classifying this kind of Interest as Riba is the “value compensation” and not the scope of Interest itself.
- 9) The loss of value in money is a result of Interest predominantly understood and classified as Riba (*interest, usury*) which is prohibited. How a branch of Interest (only created for the convenience of accounting), not having different character than its head can be taken out of the prohibition?
- o) I am not denying the right of demanding for the compensation of the loss of value in money, but the Interest based solution to accomplish this.

The dilemma

The money is not corrupted by IBF, but it is.
 IBF have no mechanism to adjust the loss of value in money
 Therefore,
 Serious issue of “how to compensate the loss of value”
 The matter is unresolved.

3) What is Unfair to Islamic Banking & Finance?

The money handling by IBF is not causing the loss of value in itself where as the way money is handled by CBF causes its devaluation. The doctrine followed by IBF does not allow the use of Interest as a tool to compensate for this loss of value in money, whereas it is very easy for CBF to compensate using the same tool. IBF does not corrupt money but face it without having a solution; the outcome of CBF operations is seriously affecting the breathing of IBF – this is unfair.

Is there any possible solution for this dilemma?

As usual the practice to look towards CBF for a problem-in-hand, will not work here and no solution can be obtained conforming to the belief followed by IBF, if any such effort to use the conventional method in solving this problem is made, there will be very serious negative impacts of the same on the existence of IBF, for instance:

- There is no real solution with CBF to solve this problem while upholding the IBF system of belief; therefore IBF will be addicted to illusions and imitations.
- The act of allowing or using a form of Interest as legal in IBF transactions will consequently prove to be the opening of door for any kind of Interest. IBF and CBF will be same then.
- IBF industry has not been very successful in convincing the masses for what exactly is the difference in IBF and CBF handling of money. There is a serious image problem, any such attempt will not even destroy what is achieved so far thru image building efforts but will ruin the future as well.

There are solutions possible for this dilemma, but that is a subject for another time.
