



جَابَطَانُ اِسْلَامِ سِلَانْجُور  
JABATAN AGAMA ISLAM SELANGOR

# DIFFERENCE BETWEEN ISLAMIC AND CONVENTIONAL BANKING

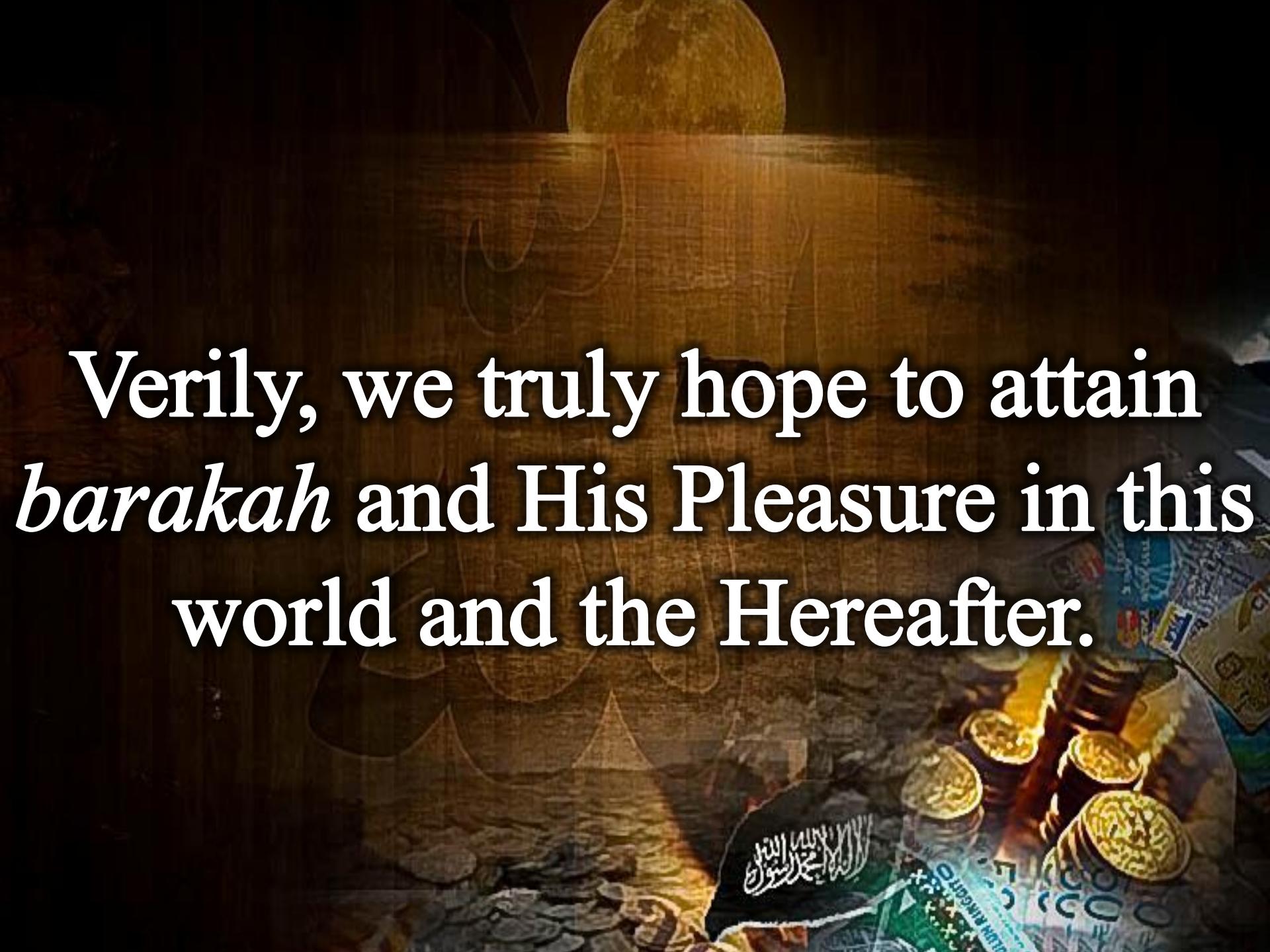


**اللهم**

Let us increase our *taqwa* of

Allah *Subhaanahu Wata'aala*

by doing all that He has  
commanded and leaving out all  
His prohibitions.



Verily, we truly hope to attain  
*barakah* and His Pleasure in this  
world and the Hereafter.

Many among us are still confused with the return or dividend obtained from our savings in the bank account, whether it is considered as *riba'a'* (usury) or not, *halal* or *haram*.

This is due to the confusion in differentiating between Islamic and conventional banking. In essence, both are two different systems, separating Paradise and Hell, in which Allah *Subhaanahu Wata'aala* has promised the torment of Hellfire

for those dealing with *ribaa*'.

Allah *Subhaanahu Wata'aala*  
mentions in al-Qur'an:

“Those who consume interest  
cannot stand [on the Day of  
Resurrection] except as one  
stands who is being beaten by  
Satan into insanity.”

That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past,

and his affair rests with Allah.  
But whoever returns to [dealing  
in interest or usury] – those are  
the companions of the Fire; they  
will abide eternally therein.”

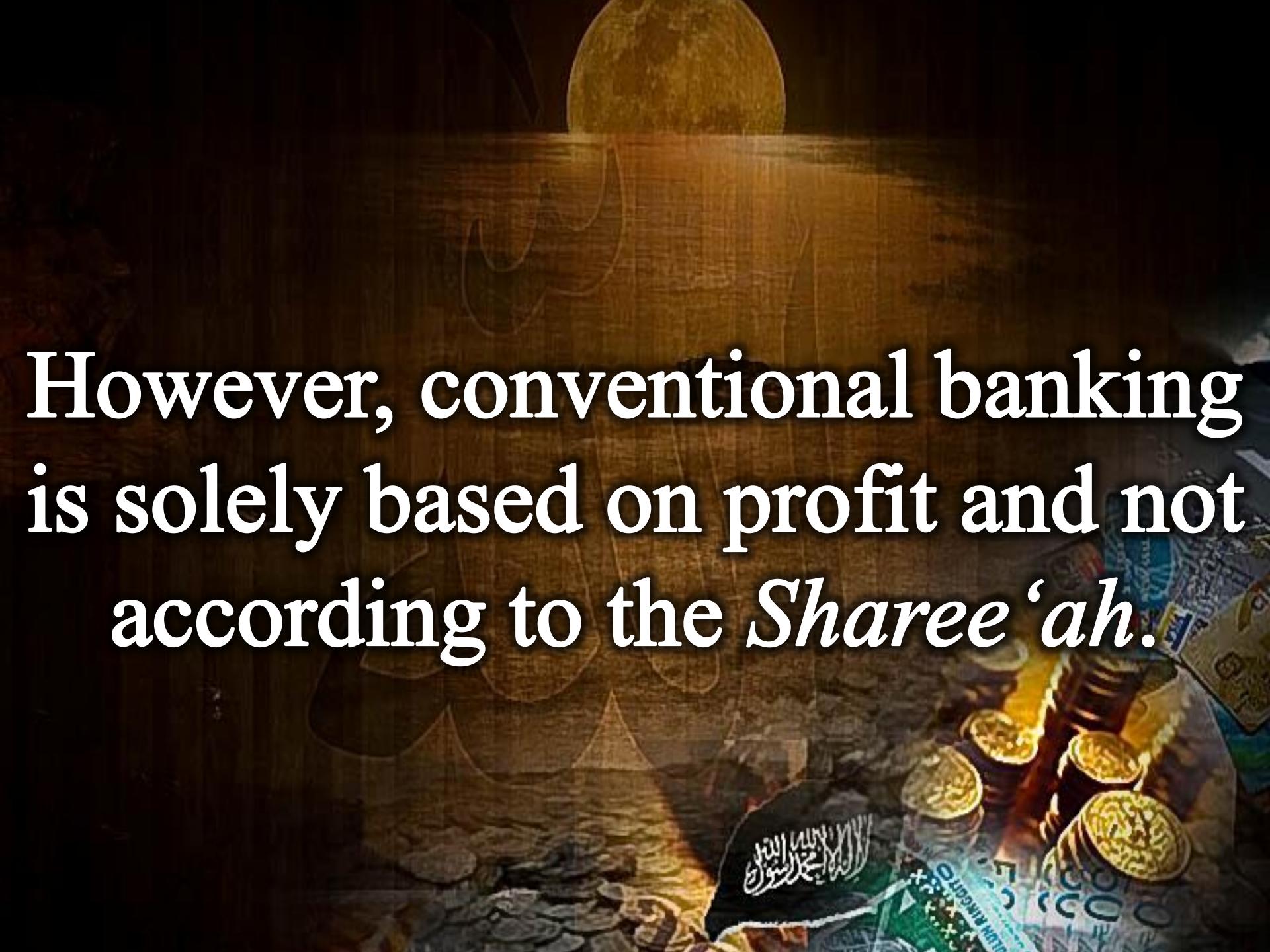
(al-Baqarah 2:275)

In a *saheeh hadeeth*, the Messenger of Allah *sallAllaahu 'alayhi wasallam* said: “When *ribaa*’ and *zina* becomes widespread in a township, indeed they

(dwellers) have allowed  
themselves to be punished by  
Allah.”  
(al-Haakim and at-Tabaraani:  
*saheeh*)

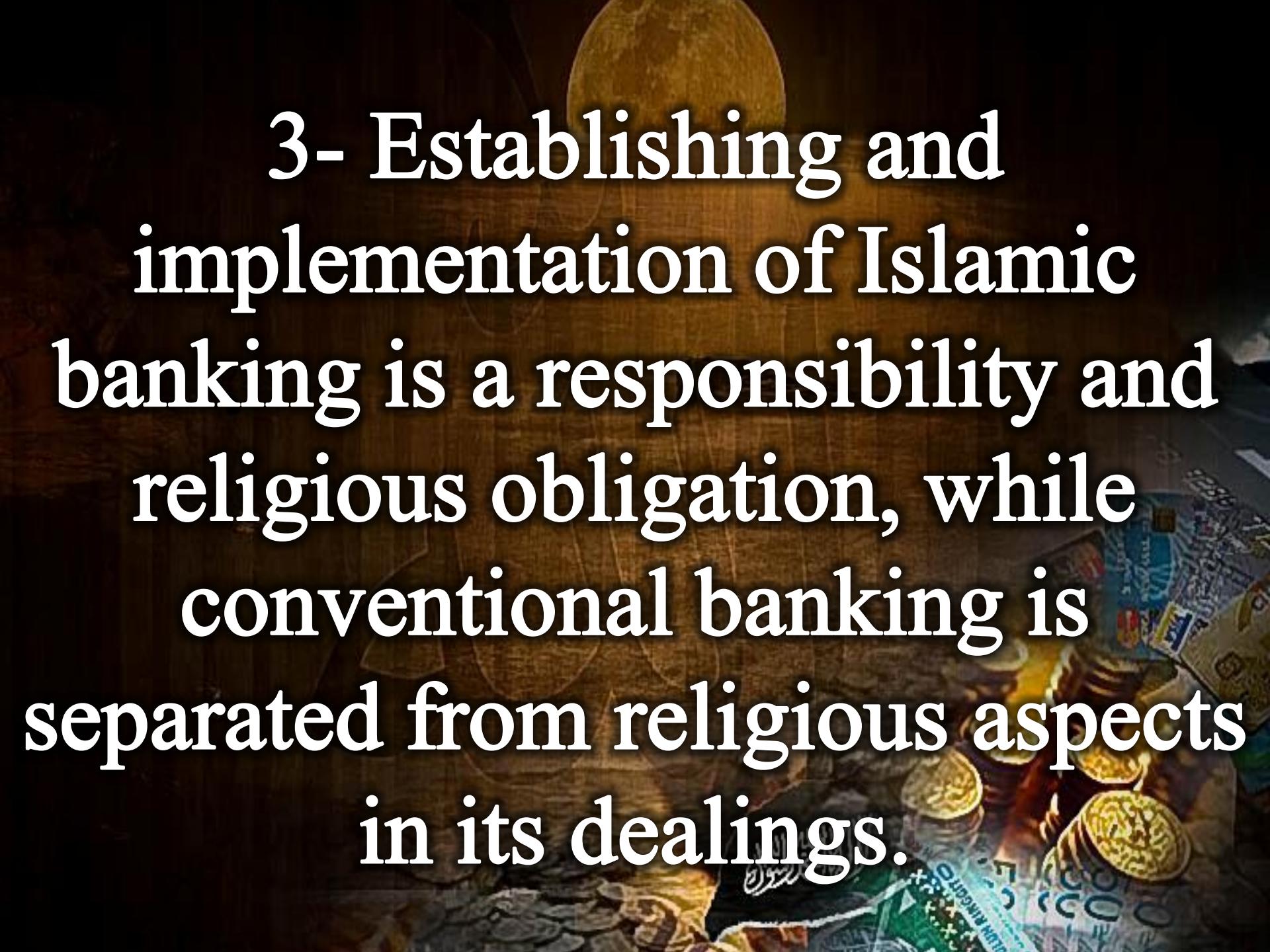
Among the differences between  
Islamic and conventional  
banking are:

1- Islamic banking is based on  
the *mu‘ammalaat* system that is  
founded upon *imaan* and *taqwa*  
of Allah Subhaanahu  
*Wata‘aala.*

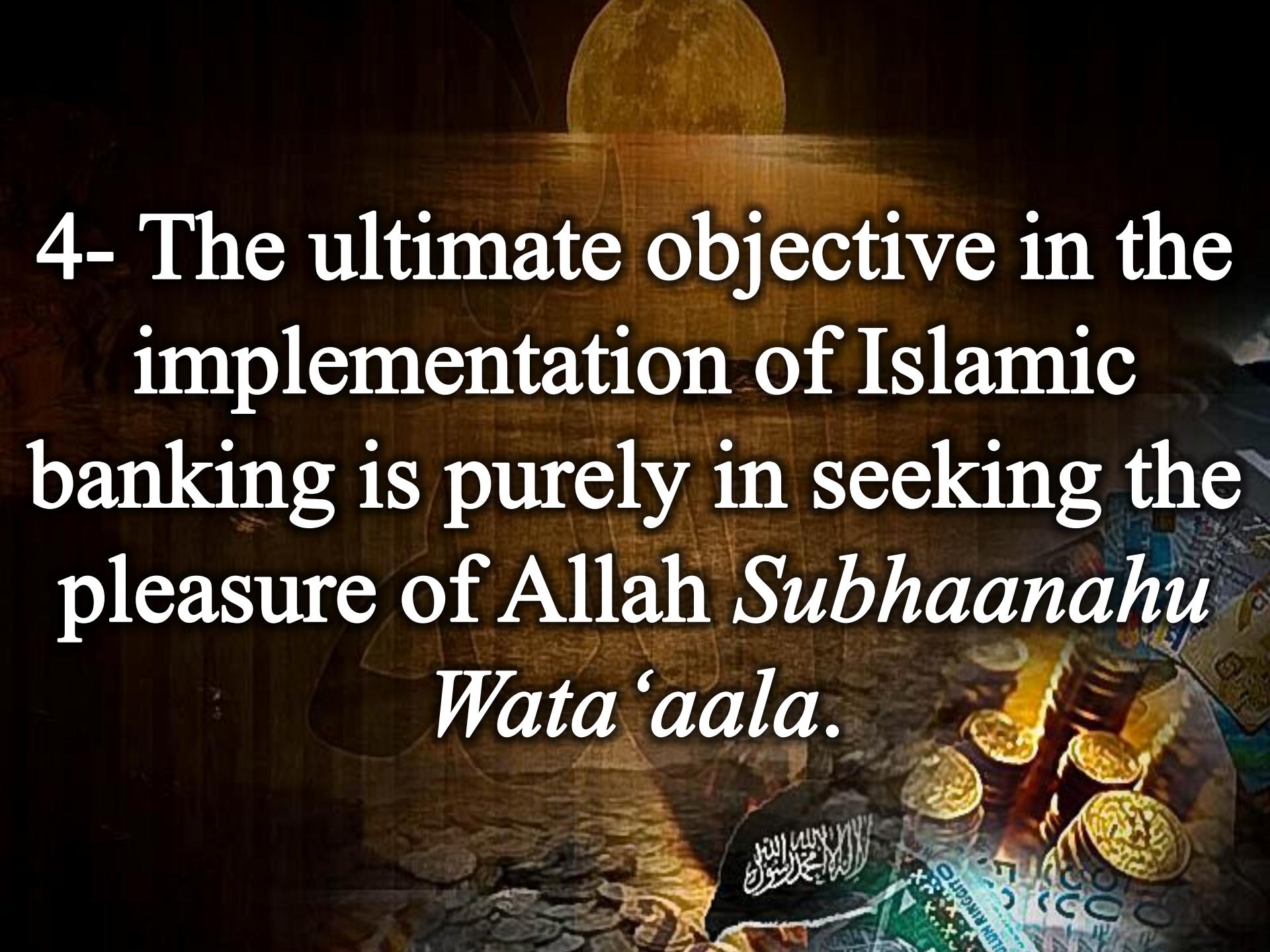


However, conventional banking  
is solely based on profit and not  
according to the *Sharee'ah*.

2- Islamic banking emphasizes the concept of good deeds (rewards) and bad deeds (sins), while conventional banking does not.



3- Establishing and implementation of Islamic banking is a responsibility and religious obligation, while conventional banking is separated from religious aspects in its dealings.

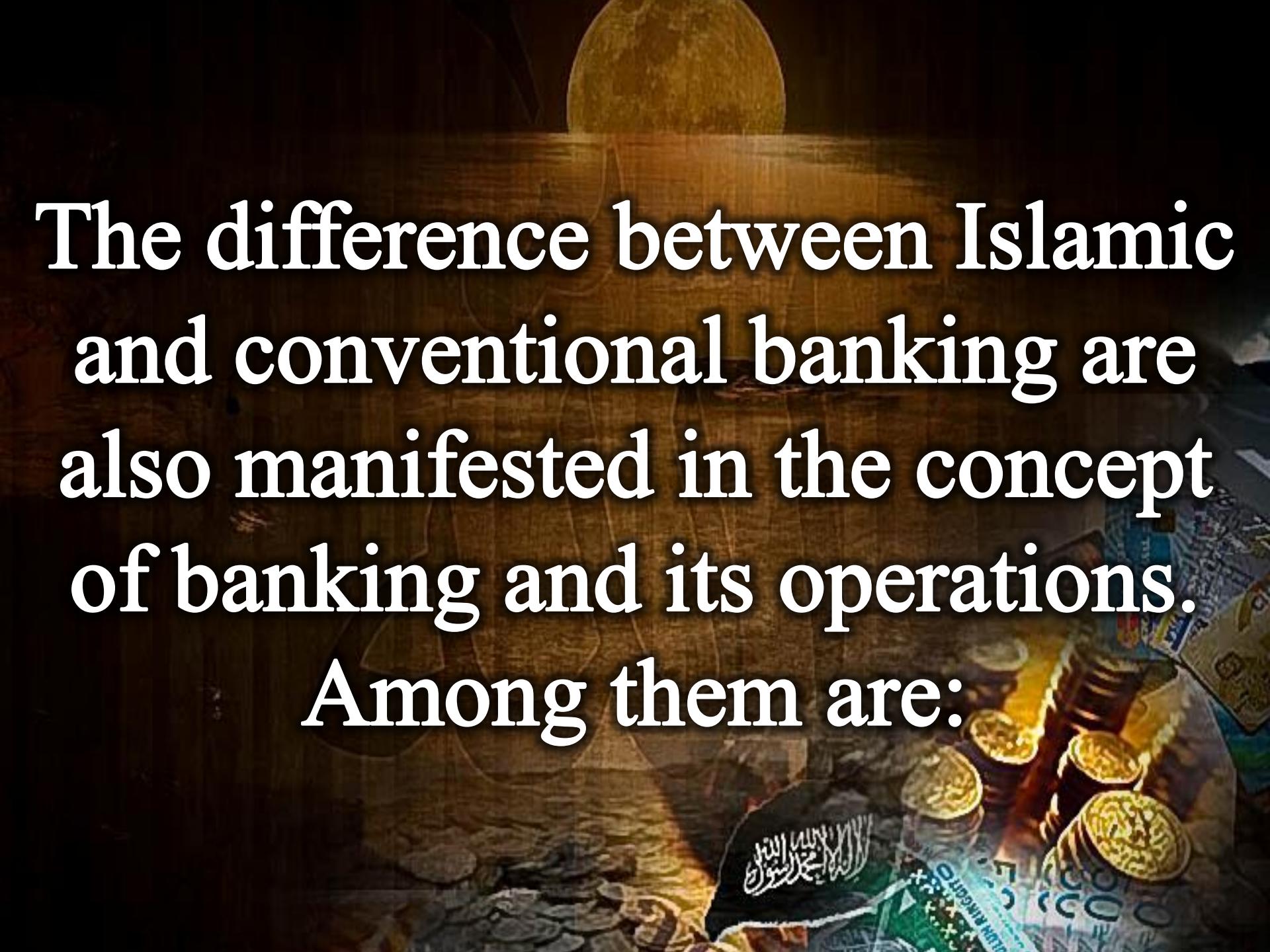


4- The ultimate objective in the implementation of Islamic banking is purely in seeking the pleasure of Allah *Subhaanahu Wata 'aala.*

5- Among the vital principles in Islamic banking is justice. This indicates the moral virtues that are highly upheld Islamic banking. Allah *Subhaanahu Wata ‘aala* mentions in al-Qur'an:

“O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent. And do not kill yourselves [or one another].

Indeed, Allah is to you ever Merciful.” (an-Nisaa' 4:29)



The difference between Islamic and conventional banking are also manifested in the concept of banking and its operations.

Among them are:

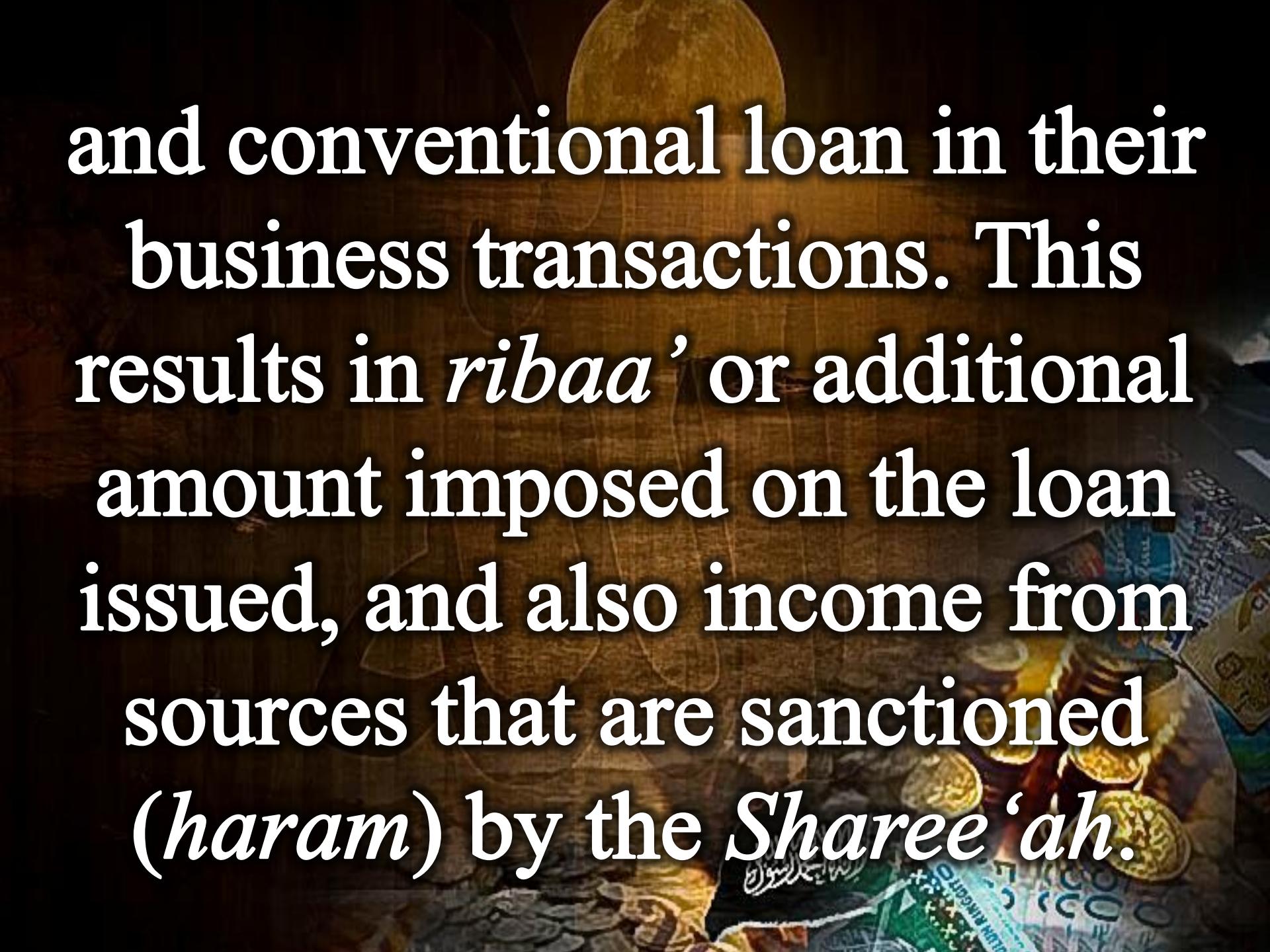
1- In Islamic banking, all activities are based on the *mu‘ammalaat* system that is founded upon al-Qur‘an and as-Sunnah, with explanations by the Muslim scholars. On the contrary, conventional banking is founded on *ribaa*.

This difference is very evident with the formation of *Sharee'ah* Advisory Board in most banks that offers Islamic banking. Its members comprise of Muslim scholars and Islamic finance experts.



They are responsible in ensuring  
the prevailing system is  
*Sharee 'ah-compliant.*

2- Islamic banking implements the concept of buying and selling in generating profit, which is the revenue from the business transactions that took place. However, conventional banking utilizes the concept of financing



and conventional loan in their business transactions. This results in *ribaa'* or additional amount imposed on the loan issued, and also income from sources that are sanctioned (*haram*) by the *Sharee'ah*.



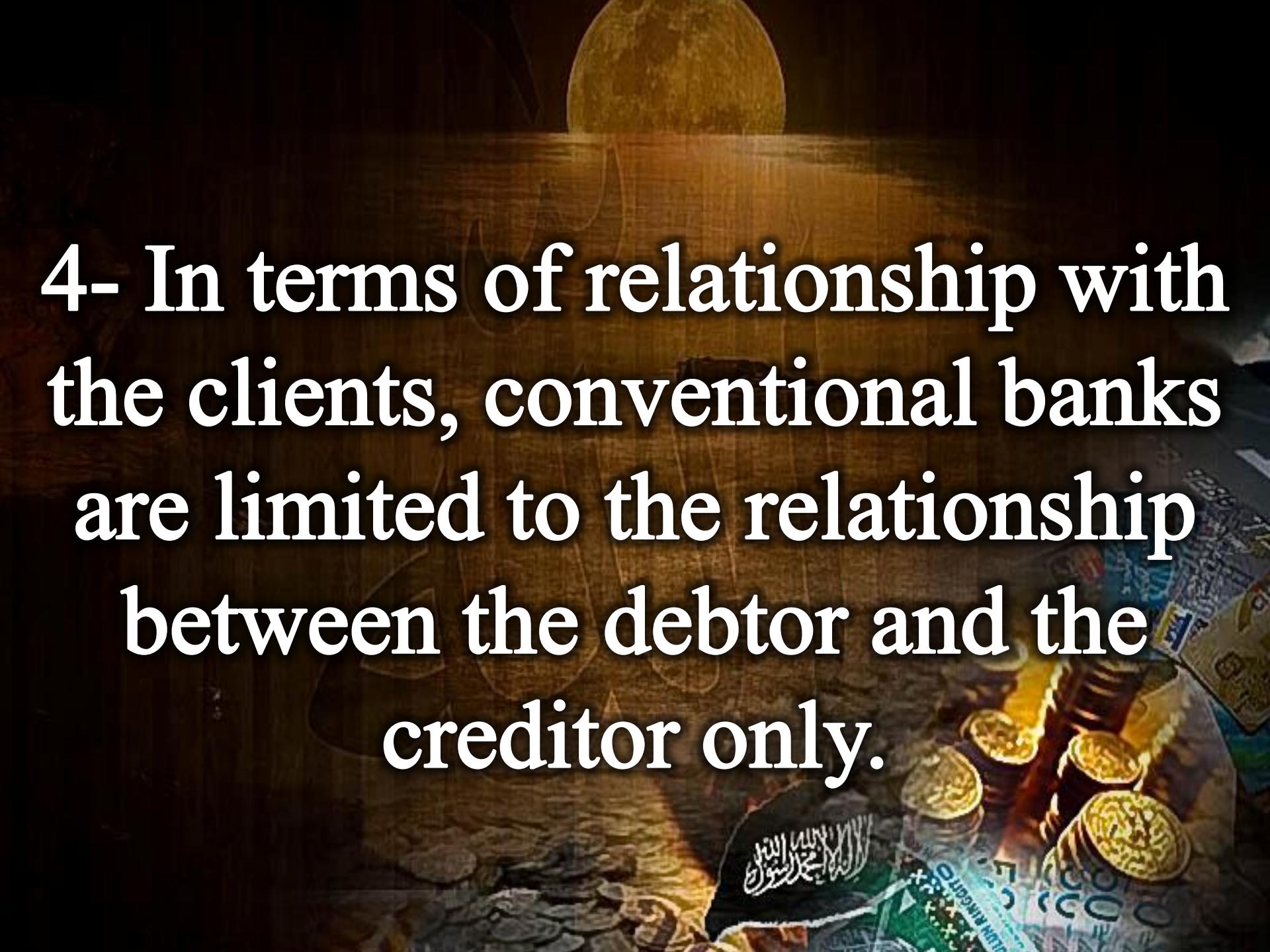
3- Among Islamic banking activities that are based upon legitimate business contracts are *al-Mudaarabah*, *al-Musharakah*, *al-Bay‘ bi ath-Thaman*, *al-Ijaarah*, and many others. These business contracts are alternatives



to the *ribaa*'-based loans that are offered in conventional banks. Furthermore, these contracts have been certified *halal* by



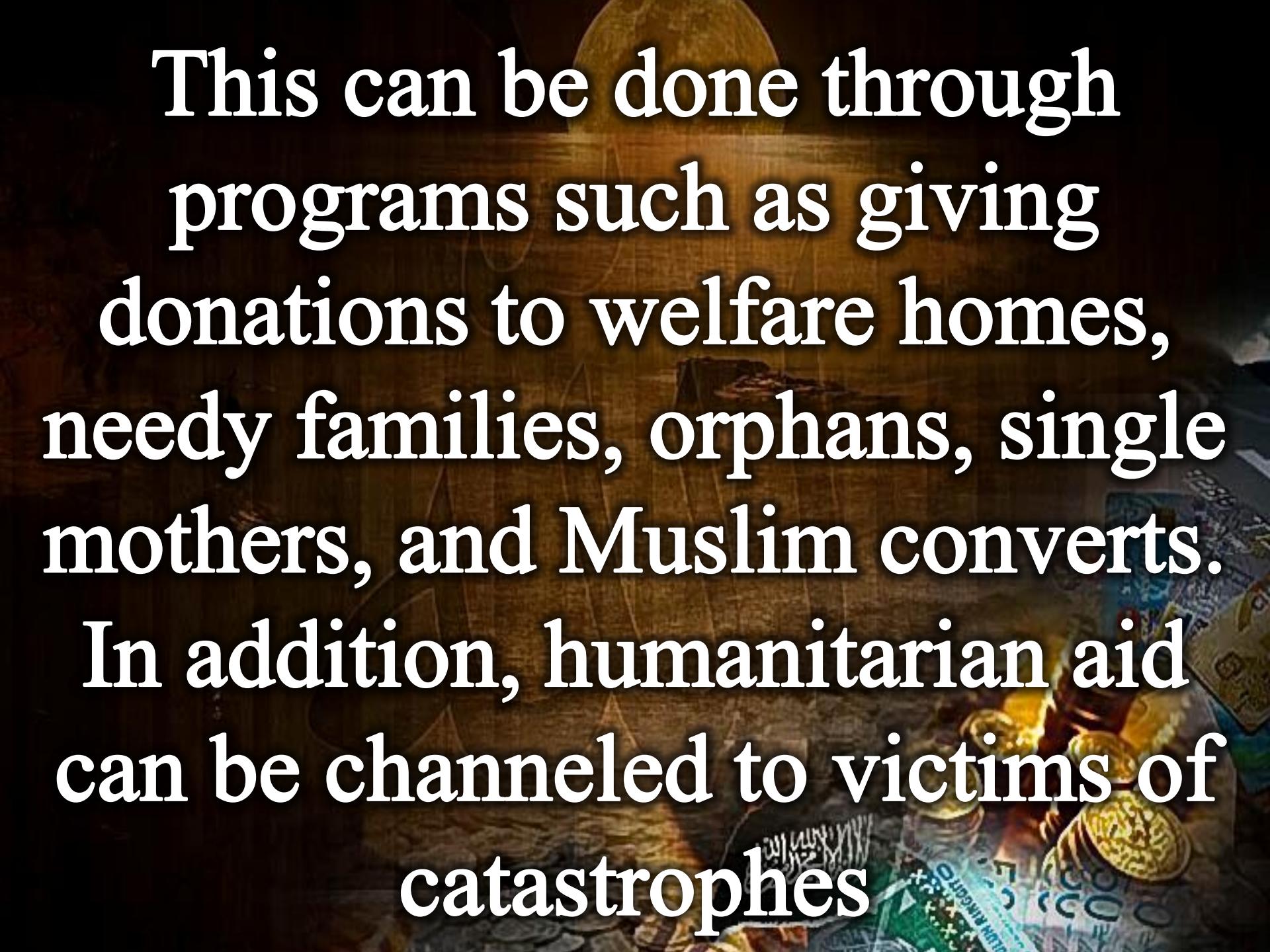
*Sharee'ah* Advisory Council of  
Bank Negara Malaysia and  
other Islamic financial  
institutions prior to being  
introduced in the market.



4- In terms of relationship with the clients, conventional banks are limited to the relationship between the debtor and the creditor only.

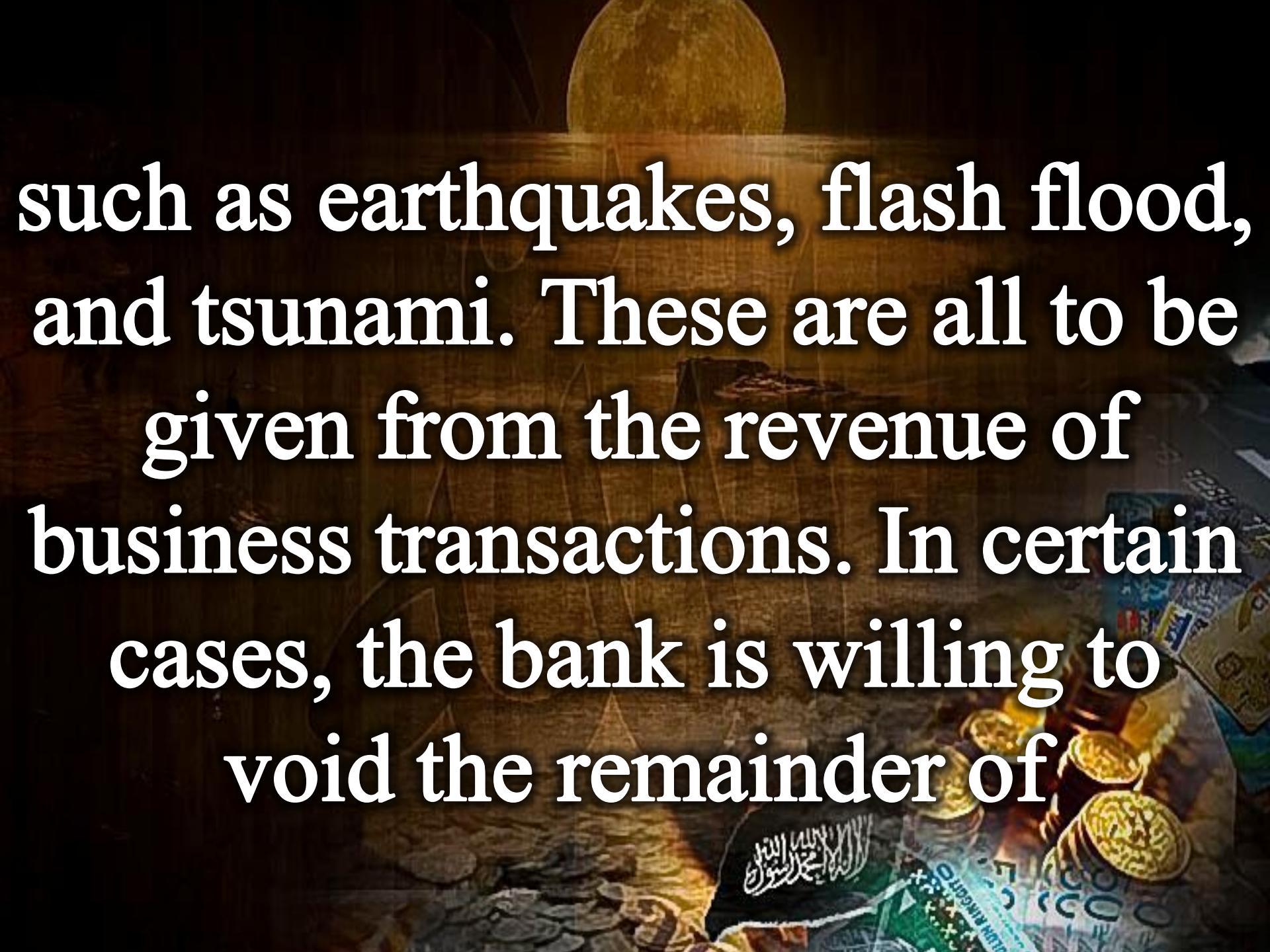
Whereby in Islamic banking, it is between the seller and the buyer, and it takes the role of project manager or financier involved in the collection of funds or *amaanah* based upon shares or loss.

5- Aside from business activities and *zakaat* obligation, it is the duty of the Islamic financial institutions to organize welfare programs and charitable events in providing assistance to the community.

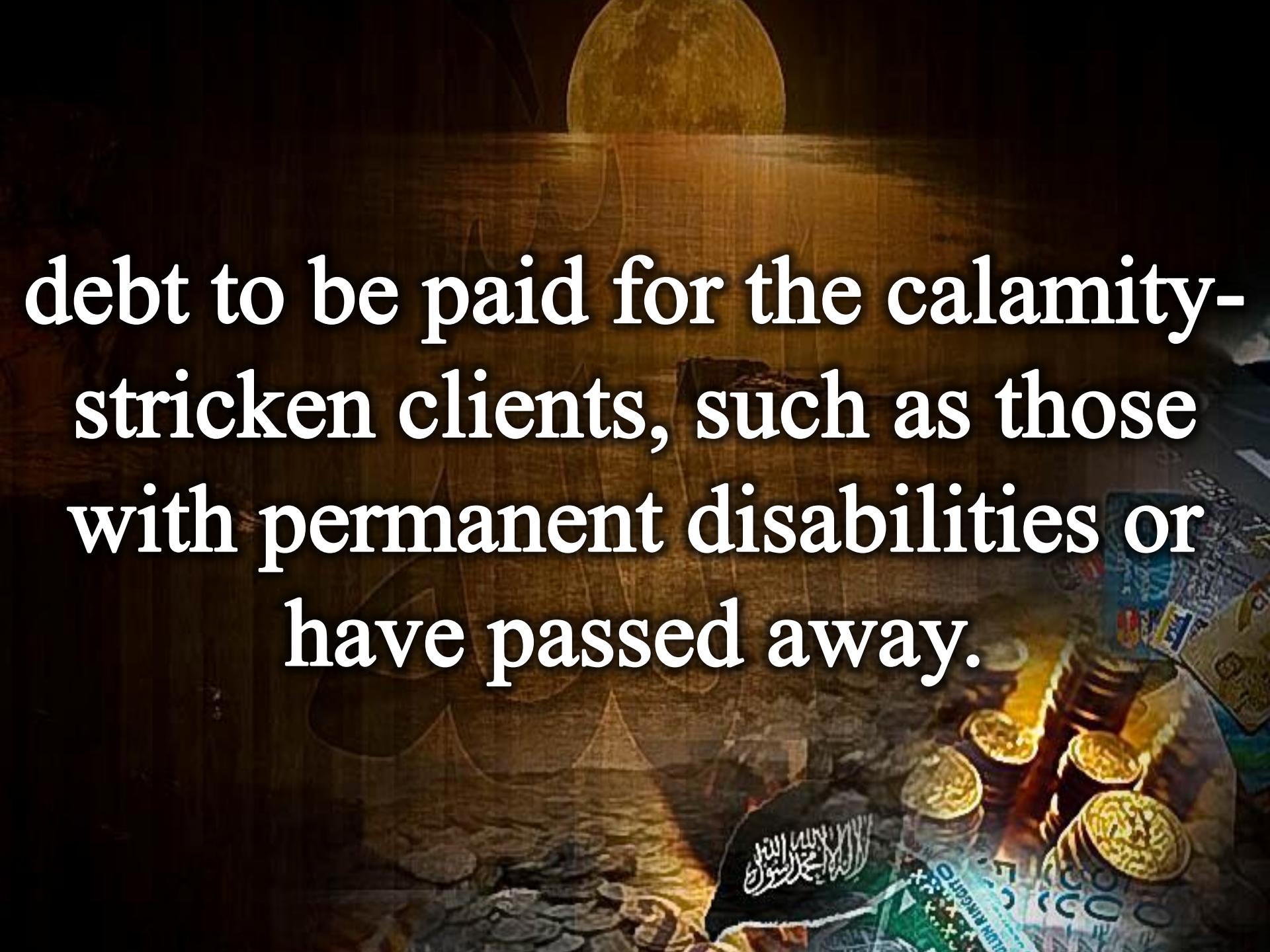


This can be done through programs such as giving donations to welfare homes, needy families, orphans, single mothers, and Muslim converts.

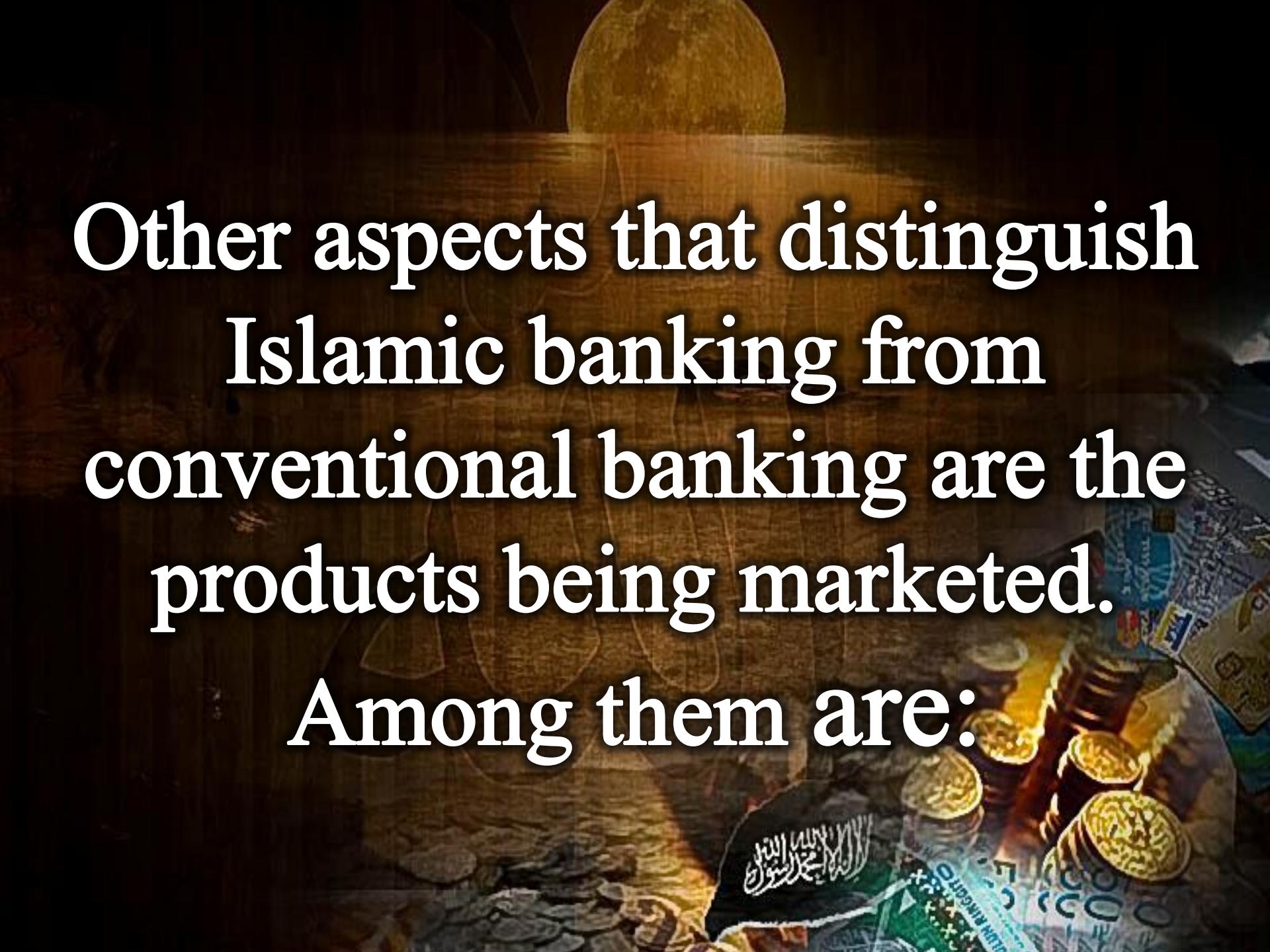
In addition, humanitarian aid can be channeled to victims of catastrophes



such as earthquakes, flash flood, and tsunami. These are all to be given from the revenue of business transactions. In certain cases, the bank is willing to void the remainder of

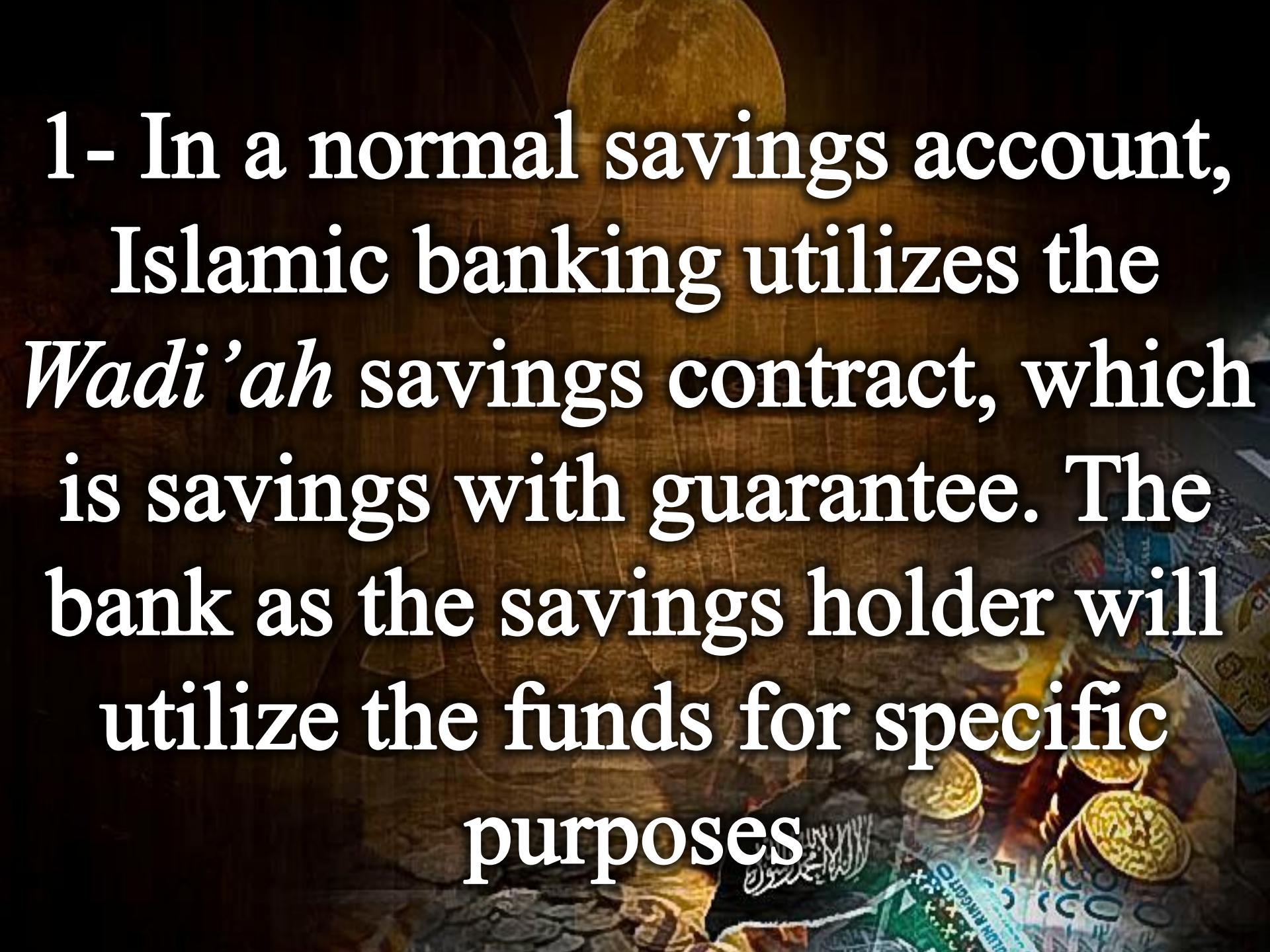
The background of the image is a photograph of the Great Pyramids of Giza under a dark sky. In the lower right foreground, there is a close-up shot of several gold coins stacked together, with some coins showing signs of wear and some appearing new. Below the coins, a hand is visible holding a banknote. The banknote has Arabic script on it, and the number '1000' is printed in large, bold letters. The overall composition suggests wealth, history, and perhaps a connection between ancient civilizations and modern banking.

debt to be paid for the calamity-stricken clients, such as those with permanent disabilities or have passed away.

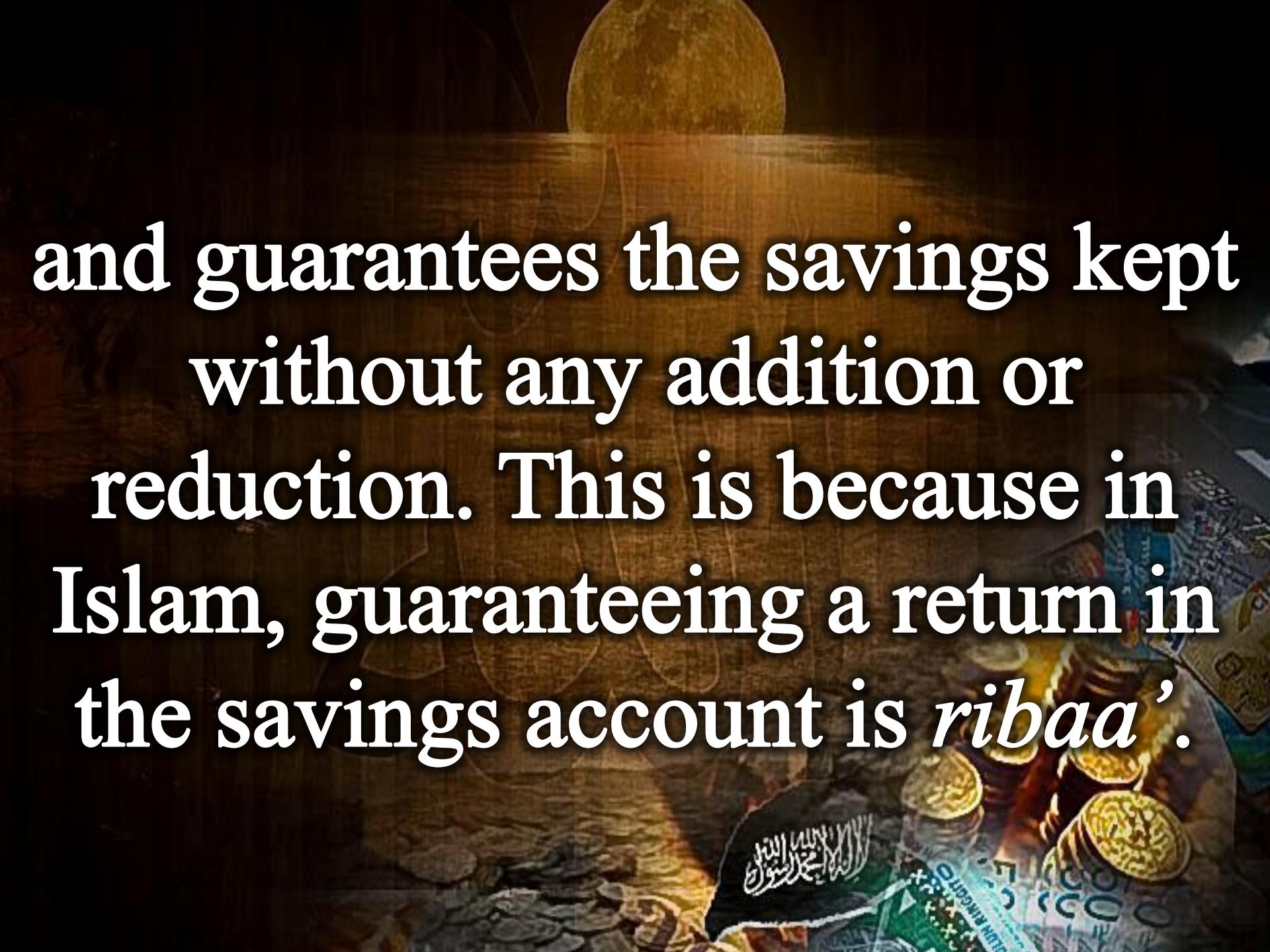


Other aspects that distinguish Islamic banking from conventional banking are the products being marketed.

Among them are:



1- In a normal savings account, Islamic banking utilizes the *Wadi'ah* savings contract, which is savings with guarantee. The bank as the savings holder will utilize the funds for specific purposes

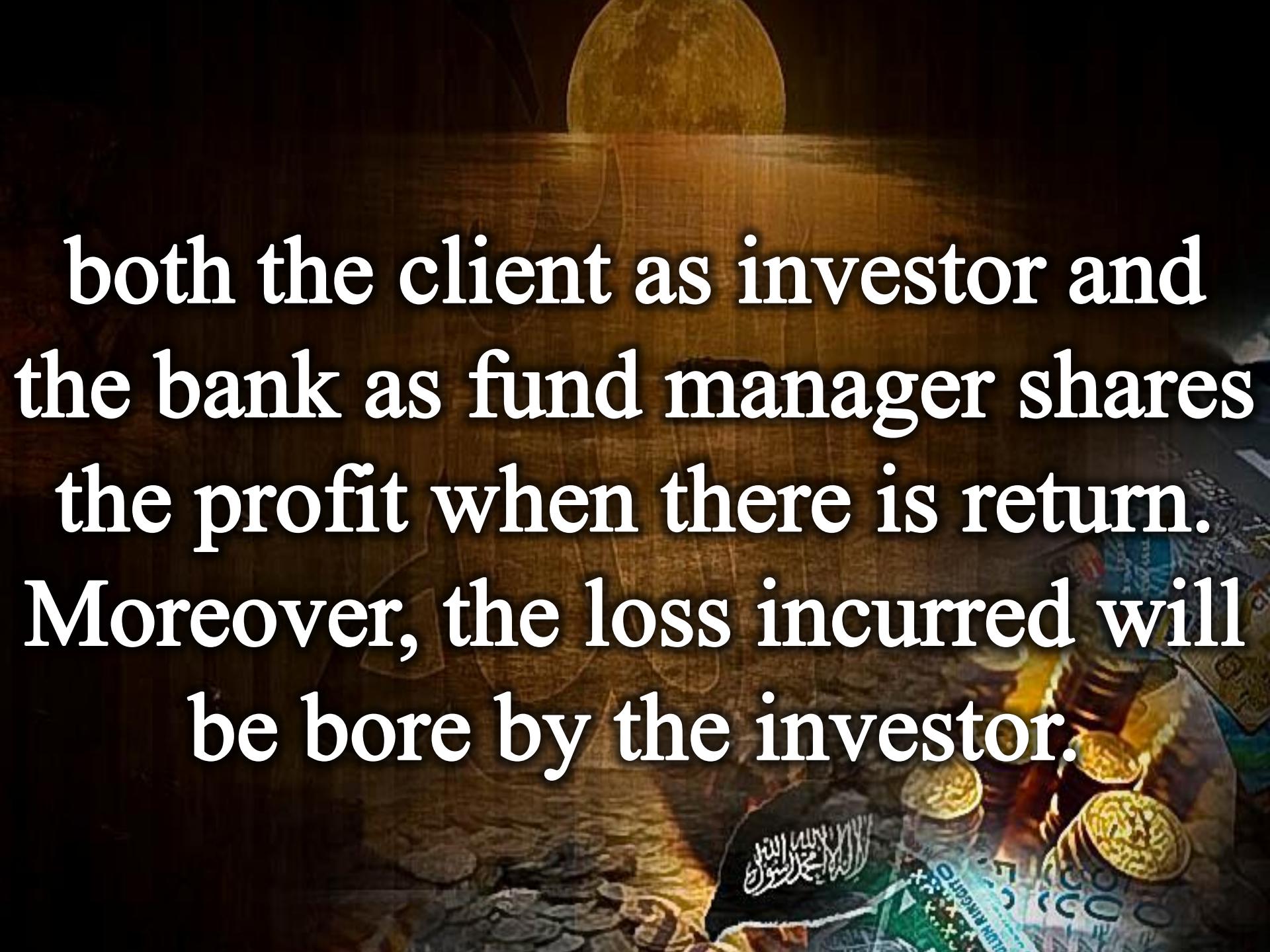


and guarantees the savings kept without any addition or reduction. This is because in Islam, guaranteeing a return in the savings account is *ribaa*'.

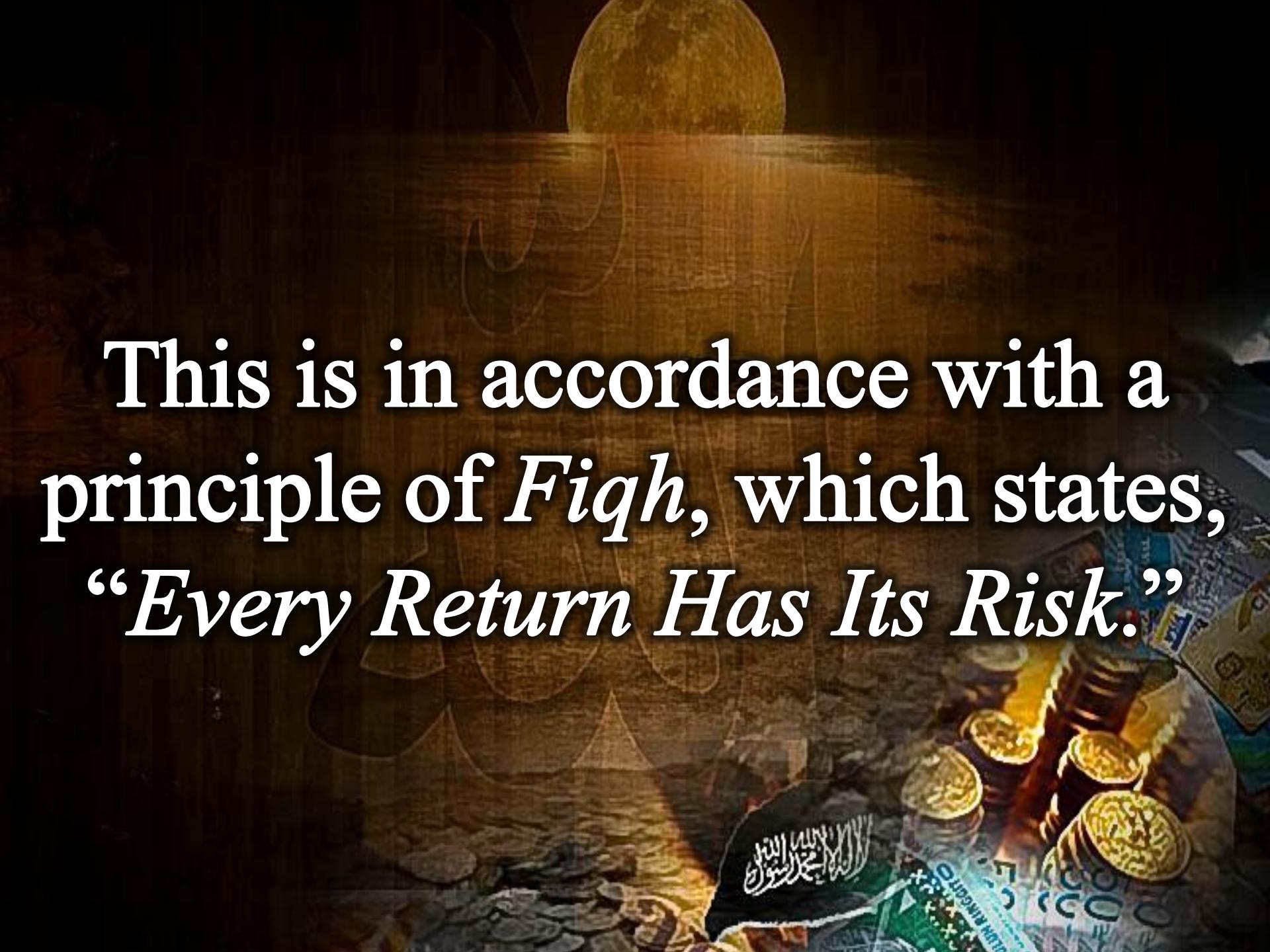
This is contrary with the savings account in conventional banking, where each account is guaranteed a fixed return. In results, account holders are deceived and deluded with *ribaa*'-filled return in their accounts.

2- In the investment contract, Islamic banking uses the concept of profit sharing with the actual risk, without burdening both or either parties.

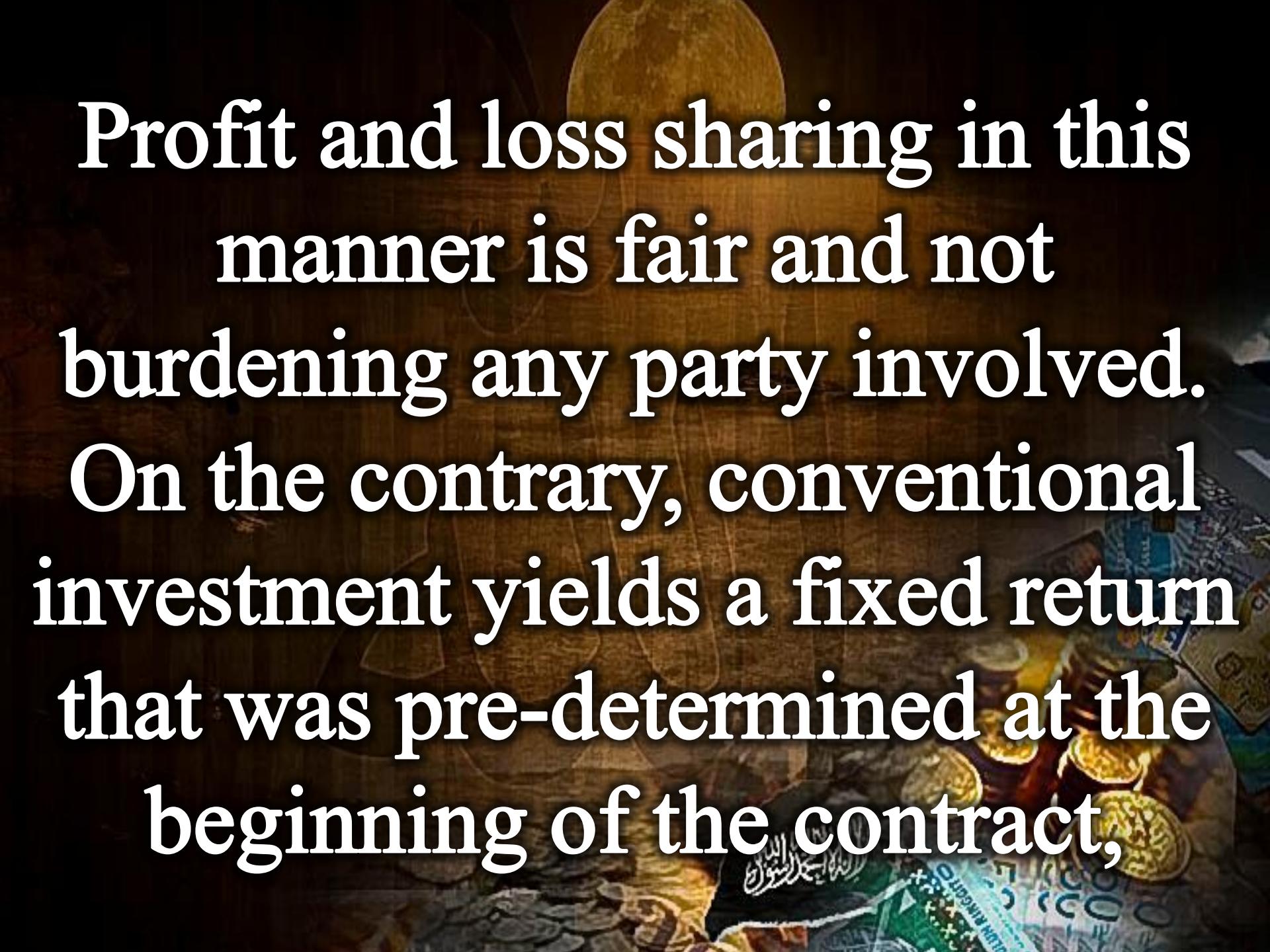
As an example, in *al-Mudaarabah* (Islamic investment),



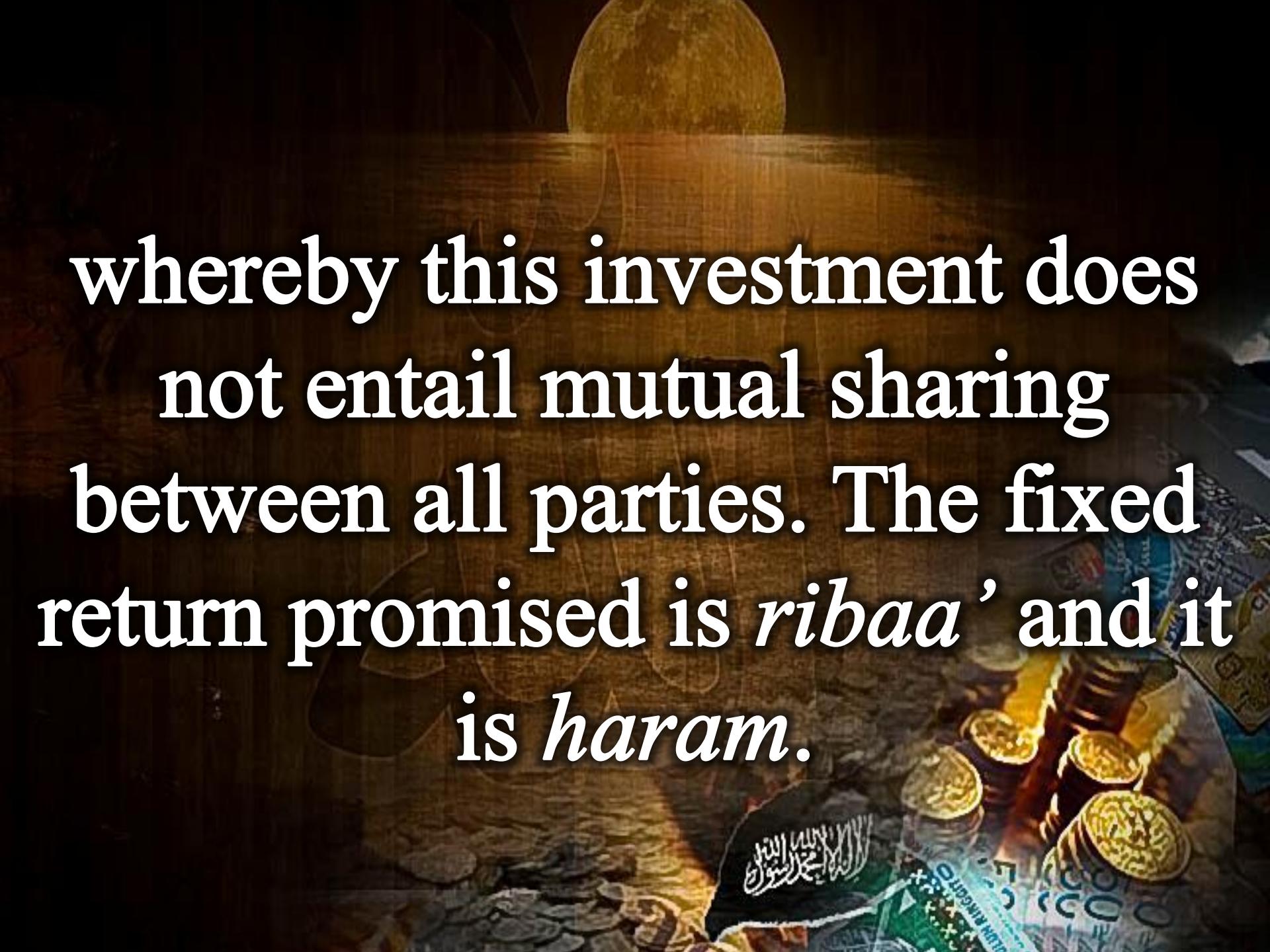
both the client as investor and the bank as fund manager shares the profit when there is return. Moreover, the loss incurred will be bore by the investor.



This is in accordance with a principle of *Fiqh*, which states,  
*“Every Return Has Its Risk.”*

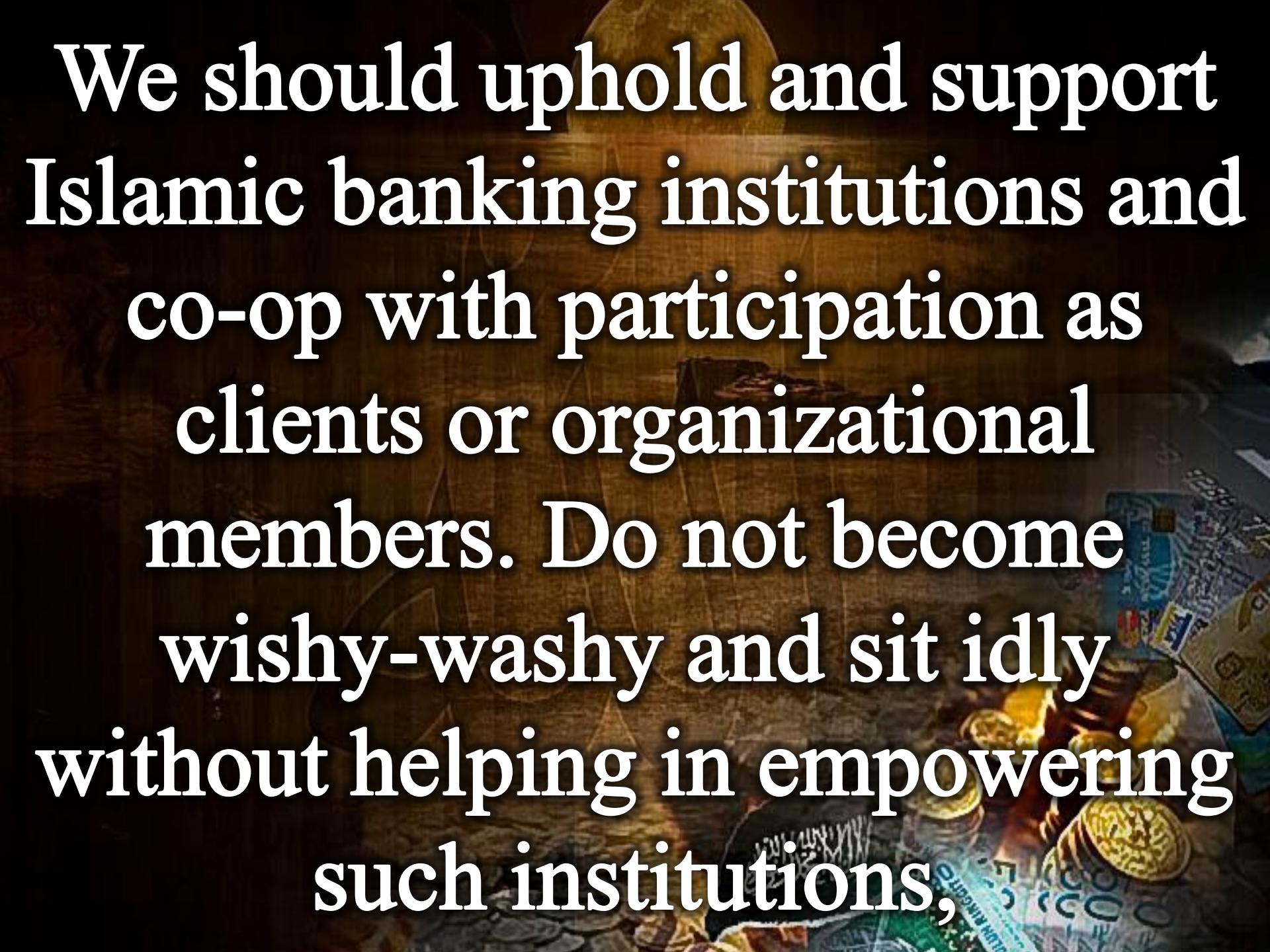


Profit and loss sharing in this manner is fair and not burdening any party involved. On the contrary, conventional investment yields a fixed return that was pre-determined at the beginning of the contract,

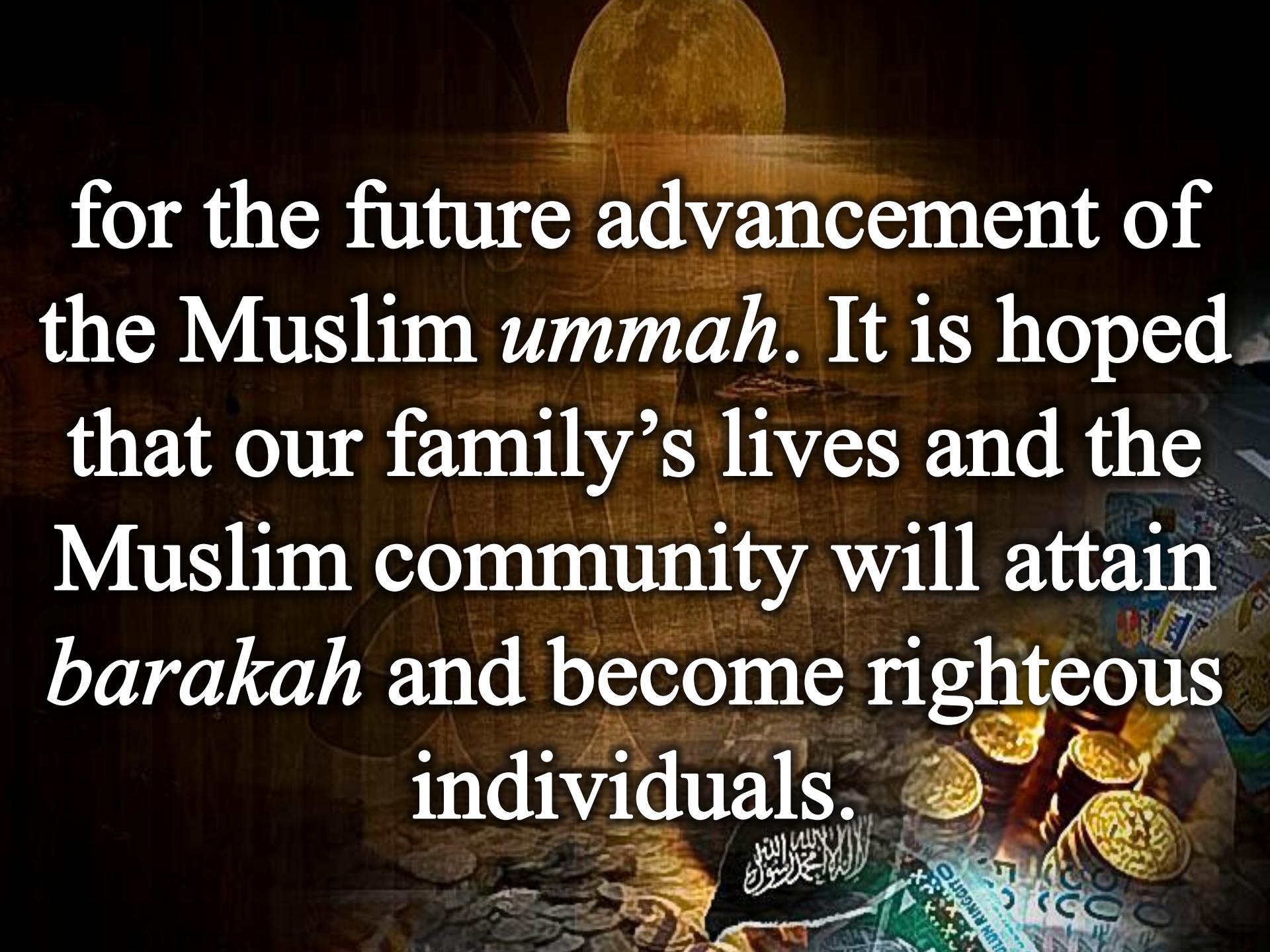


whereby this investment does not entail mutual sharing between all parties. The fixed return promised is *ribaa'* and it is *haram*.

Let us hasten to self-evaluate  
ourselves and obey the  
commandments of Allah  
*Subhaanahu Wata ‘aala* by  
ensuring our financial affairs,  
source of *rizq*, and the food we  
consume with our families are  
from *halal* sources.



We should uphold and support Islamic banking institutions and co-op with participation as clients or organizational members. Do not become wishy-washy and sit idly without helping in empowering such institutions,

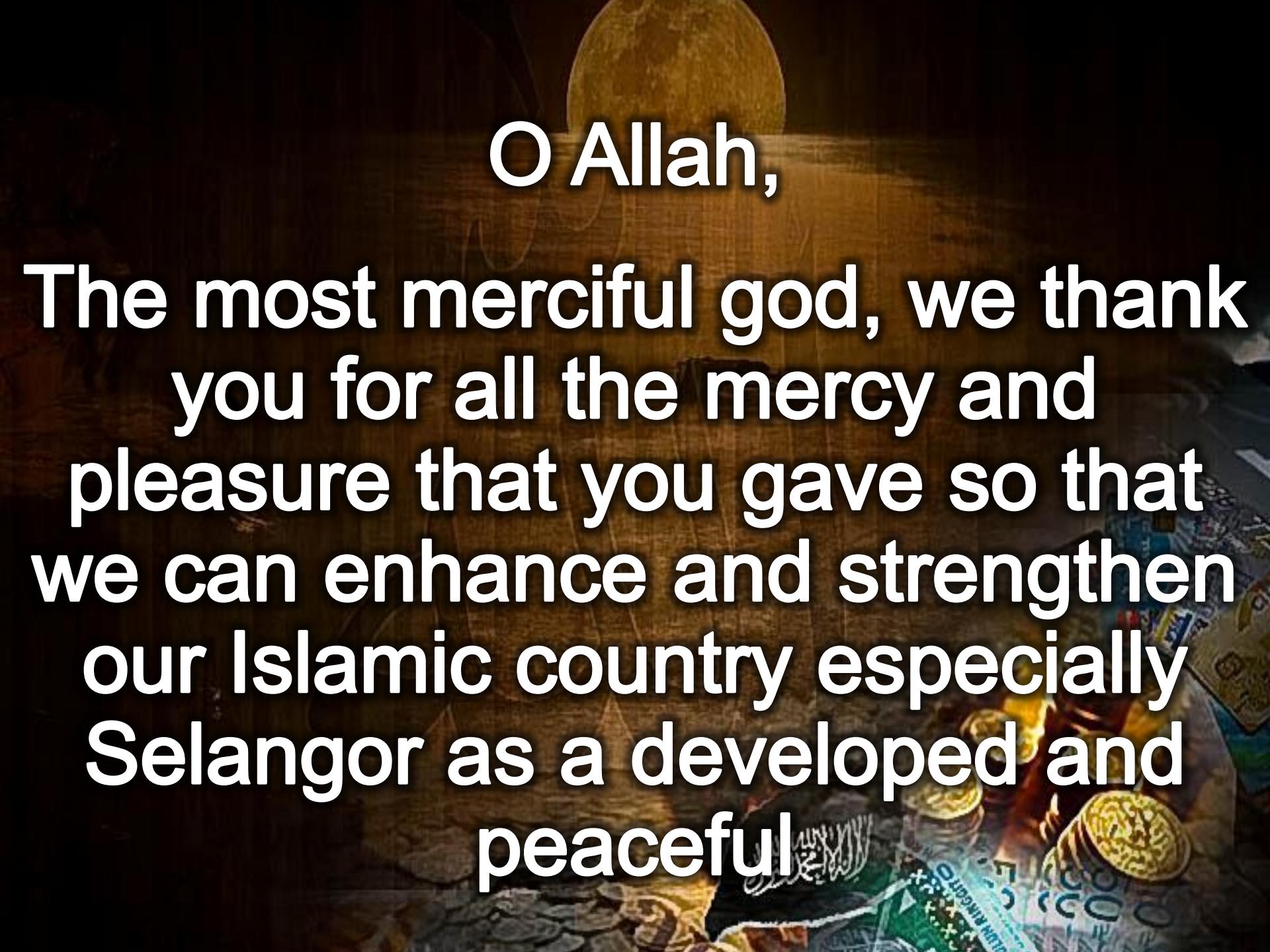


for the future advancement of the Muslim *ummah*. It is hoped that our family's lives and the Muslim community will attain *barakah* and become righteous individuals.

“O you who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers. And if you do not, then be informed of a war [against you] from Allah and His Messenger.

But if you repent, you may have  
your principal – [thus] you do  
no wrong, nor are you  
wronged.”  
(al-Baqarah 2:278-279)

بَارَكَ اللَّهُ لِيْ وَلَكُمْ فِي الْقُرْآنِ الْعَظِيمِ وَنَفَعَنِي  
وَإِيَّاكُمْ بِمَا فِيهِ مِنَ الْآيَاتِ وَالذِّكْرِ الْحَكِيمِ  
وَتَعَبَّلَ مِنِّي وَمِنْكُمْ تِلَوَّتَهُ إِنَّهُ هُوَ السَّمِيعُ  
الْعَلِيمُ. أَقُولُ قَوْلِيْ هَذَا وَأَسْتَغْفِرُ اللَّهَ الْعَظِيمَ  
لِيْ وَلَكُمْ وَلِسَائِرِ الْمُسْلِمِينَ وَالْمُسْلِمَاتِ  
وَالْمُؤْمِنِينَ وَالْمُؤْمِنَاتِ الْأَحْيَاءِ مِنْهُمْ  
وَالْأَمْوَاتِ فَاسْتَغْفِرُوهُ  
إِنَّهُ هُوَ الْغَفُورُ الرَّاجِيْمُ

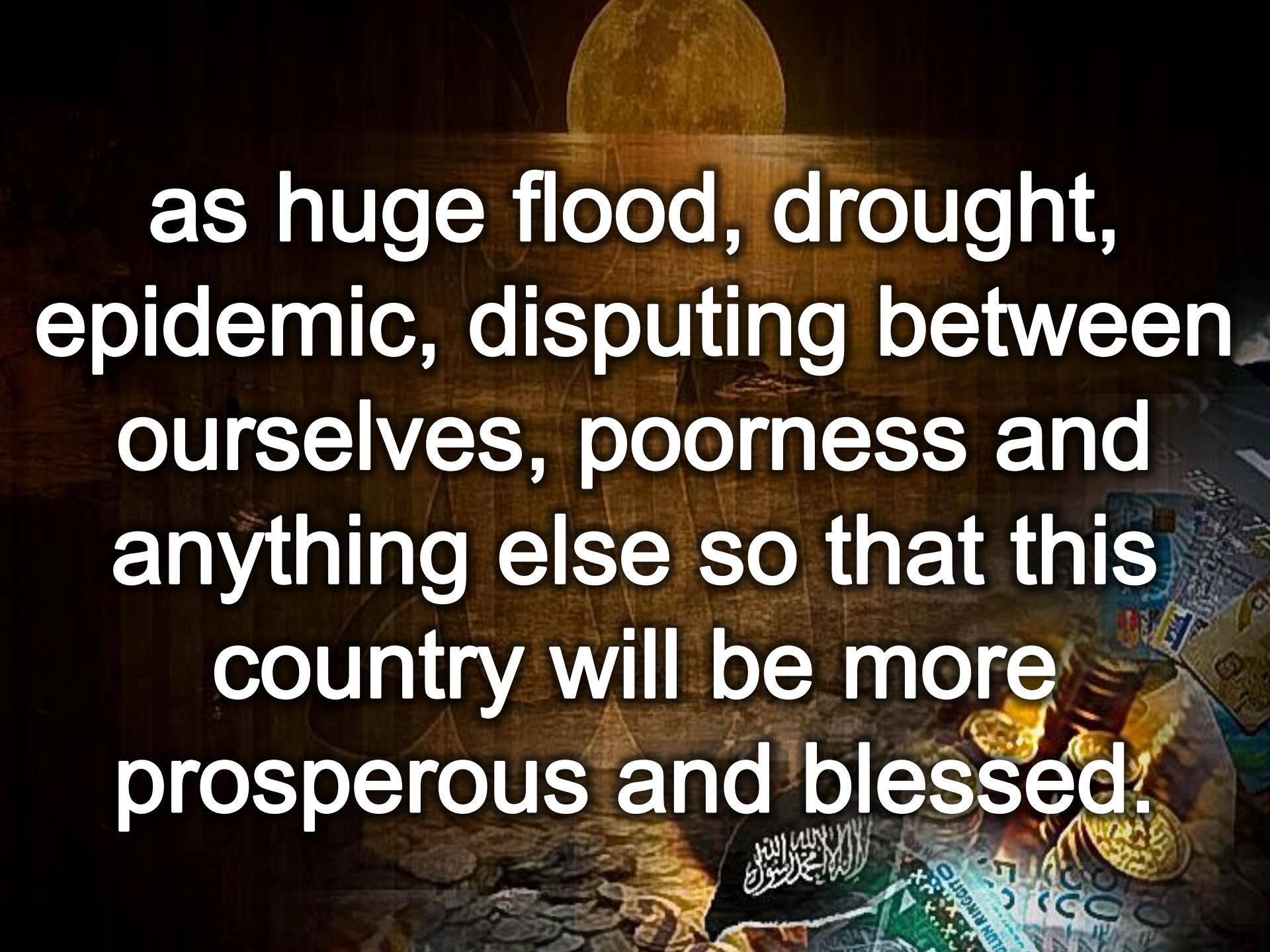


O Allah,

The most merciful god, we thank you for all the mercy and pleasure that you gave so that we can enhance and strengthen our Islamic country especially Selangor as a developed and peaceful

O Allah,

We beg you to increase our practice, brace up our unity, give us prosperous life, make us rich with good knowledge, flourish our soul with noble character, bring back our youngsters to the right path, save us from your biggest test such



as huge flood, drought, epidemic, disputing between ourselves, poorness and anything else so that this country will be more prosperous and blessed.



DI SEDIAKAN OLEH:  
UNIT KHUTBAH,  
JABATAN AGAMA ISLAM SELANGOR

ILLUSTRASI OLEH:  
UNIT TEKNOLOGI MAKLUMAT  
JABATAN AGAMA ISLAM SELANGOR