

# Introduction to Islamic Finance

The background is a dark blue gradient with faint, stylized illustrations. It includes hands holding Euro banknotes, a calculator, and Islamic architectural motifs like domes and minarets. Faint text 'ISLAMIC FINANCE' is visible in the background.

## Chapter 1

# Philosophy of Islamic Finance

## Islamic Worldview

Relationship between **Allah**, the **Individual**, and the **Ummah** (community)

Based on **Implicit Contract** and **Explicit Contract**

## Concept of Istikhlaf (Vicegerency)

Man is **not the absolute owner** of resources

Entrusted with resources for **betterment of mankind**

Accountable to Allah (swt) for conduct on earth

Trust is linked with **responsibility**

## Conventional Financial System

Value Neutral System

Assumes humans are **rational** in decision making

Based on **Doctrine of Self Interest**

## Key Differences

### Conventional

- Self-interest focus
- Resource ownership
- Value-neutral

### Islamic

- Community benefit
- Resource stewardship
- Value-based

# Principles of Islamic Economics

## Paradigm & Role

- **Not secularist** and value-neutral
- Humans as **vicegerents of God**
- All humans are **brothers** unto each other

## Resource Usage & Well-being

- Resources are a **trust**
- Must be used for **well-being of all**
- Conforming to **Shari'ah values**
- Balanced satisfaction of **material and spiritual needs**

## Foundations of the Economic System

### Tawhid

Indivisible oneness of monotheism

### Rububiyah

Ownership and obedience

### Risalah

Prophethood and divine communication

### Akhirah

Afterlife and temporary nature of earth

### Istikhlaf

Vicegerency and trusteeship

### Tazkiyah

Purification of heart and soul

### Kafalah

Guarantee and shared liability

### Adalah

Justice and fairness

# Principles of Islamic Finance

## Definition & Scope

- Financial services compliant with **Islamic commercial jurisprudence**
- Branch of Islamic **Shari'ah**
- Comprises Islamic financial markets and institutions

## Core Promotions & Avoidances

Promotes:

- Economically productive activities
- Genuine trade/business transactions

Avoids:

- Interest-based activities
- Illegal/unethical activities
- Speculative transactions

## Validity vs Permissibility

## Trade vs Riba

"Allah permits **trading** but prohibits **Riba**" (2:275)

- Trade involves **risk**, **effort**, and **liability**
- Riba involves **predetermined excess** without counter-value

## Concept of Iwad (Equal Counter-Value)

- Element of '**iwad**' in sale promotes **equity and justice**
- Distinguishes legitimate exchange from **riba**
- Every legitimate exchange must contain '**iwad**'

**Risk (Ghurm)**

**Effort (Kasb)**

**Liability**

# Shariah Framework for Islamic Finance

## Definition of Shariah

- Literally: '**path to watering place**'
- Path to tread for **guidance in this world**
- Commands, prohibitions, and values prescribed by Allah
- Epitome of Islamic thought and core of Islam

## Sources of Shariah

### ★ Primary Sources

- **Holy Qur'an**
- **Sunnah** (Prophetic tradition)

### Secondary Sources

- Ijma' (consensus)
- Qiyas (analogical deduction)
- Istihsan (equity)
- Masalih Mursalah (public interest)

## Components of Shariah

- **Aqidah**: Islamic creed and beliefs
- **Fiqh**: Understanding of laws relating to human deeds
- **Akhlak**: Moral ethics and character

Divisions of Fiqh:

- **Ibadat**: Rituals

## Maqasid al-Shariah Objectives

- Realization of **maslahah** (human interest)
- Manifesting **vicegerency role**
- Acquiring benefits and avoiding harms

Religion

Life

# Fundamental Prohibited Elements in Islamic Finance



## Riba (Interest)

### Definition

Predetermined **excess** over and above the loan received, conditionally related to a specified time period, and **without counter value**

### Prohibition Rationale

Explicitly prohibited in **Qur'an** (Al-Baqarah: 278-279)

Creates **injustice** to borrower and lender

Two categories: **Riba al-Qard** (loans) and **Riba al-Buyun** (sales)



## Gharar (Ambiguity)

### Definition

**Uncertainty** and/or ignorance of one/both parties over the substance or attributes of the object of sale, or doubt over its **existence/availability**

### Prohibition Rationale

Prohibited by the **Sunnah** of the Prophet

Ensures **full consent** and satisfaction

Prevents **injustice** and exploitation

Types: **Gharar Yasir** (minor) and **Gharar Fahish** (major)



## Maysir (Gambling)

### Definition

Activity involving **betting** where winner takes entire bet and loser loses; games of **pure chance** where one party gains at expense of another

### Prohibition Rationale

Explicitly condemned in **Qur'an** (al-Maidah: 90-91)

Stirs up **enmity** and **hatred**

Distracts from **remembrance of Allah**

Does not create wealth but relies on others' wealth

# Differences between Islamic Finance and Conventional Finance



## Conventional Finance



### Regulatory Basis

Uses **man-made principles**



### Asset Requirement

**No asset requirement**



### Charging Return

Permits charging **interest**



### Governance

Standard regulatory approval



### Relationship

Based on **loan arrangements** (borrower/lender)



### Determinant of Returns

Based on **contractual obligation** on loan amount



### Ethos

Focus on **profit maximization**



## Islamic Finance



### Regulatory Basis

Uses principles prescribed by **Islamic law (Shari'ah)**



### Asset Requirement

Promotes **purchase of an asset** to generate income



### Charging Return

**Prohibits charging interest**



### Governance

Requires **Shari'ah Advisory Committee** approval



### Relationship

Based on **Partnership, Profit-sharing, Trading**



### Determinant of Returns

Reliant on **actual economic activities**



### Ethos

Promotes **brotherhood, cooperation, risk-sharing**

# Development of Islamic Finance in Malaysia

## Early Timeline Milestones

**1963**

Lembaga Tabung Haji established

**1983**

Bank Islam Malaysia Berhad (BIMB)

**1994**

Islamic Inter-banks Money Market (IIMM)

**1999**

Bank Muamalat Malaysia Berhad (BMMB)

**2002**

Islamic Financial Services Board (IFSB)

**2006**

INCEIF established

## Implementation Phases

**Phase 1**

Establishment of Islamic financial institutions

**Phase 2**

Conventional banks offered Islamic Banking services

**Phase 3**

Conventional banks set up Islamic subsidiaries

**Phase 4**

International integration of the domestic system

## Infrastructure



# Islamic Finance Today

## 📈 Current Scenario

- Global Islamic finance market **growing moderately**
- Driven by strong investments in **Halal sectors**
- Focus on **infrastructure** and **Sukuk bonds**

## 📊 Market Size

**\$2.05T** Total worth of Islamic finance industry in 2017

**8.3%** Annual growth in assets

**71%** Contribution of Islamic banking to industry assets

## 📈 Key Market Trends

### 📱 Digital Adoption

Islamic banks launching **digital-only subsidiaries**

### ⚙️ Perceived Advantages

Bound to **higher moral standards** and **asset-based** approach

### 🌐 Global Issuance

Global SUKUK outstanding surged **25.6%** to \$399.9B






### 🏠 Regional Significance

GCC market share crossed **25%** threshold







# Conclusion

## Key Takeaways

-  Islamic finance based on **Shari'ah principles** with focus on **justice, equity, and risk-sharing**
-  Prohibits **Riba** (interest), **Gharar** (uncertainty), and **Maysir** (gambling)
-  Fundamentally different from conventional finance in **asset-backing** and **risk-sharing**
-  Malaysia has been a **pioneer** in developing comprehensive Islamic finance ecosystem
-  Global Islamic finance market valued at **\$2.05 trillion** with steady growth

## Significance & Future

-  Offers **ethical alternative** to conventional financial systems
-  Promotes **social responsibility** and **economic justice**
-  Expanding beyond Muslim-majority countries to **global markets**
-  **Digital transformation** creating new opportunities and challenges

### Future Focus Areas



Social  
Resilience



Climate  
Resilience



Business  
Empowerment