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**Title: Islamic Banking & Conventional Banking**

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**Islamic Banking & Conventional Banking**

A bank is a financial institution a where a person can save or borrow money. In the modern world there are many types of banks based on this kind of banking processes. But two of them are the most famous of them and are used everywhere. These banks are known as “the conventional banking “and “The Islamic Banking”. The Islamic banking is based on the principles of Quran and sunnah known as the shariah and such principles are taken from the Fiqh ul Muamalat. However, the conventional banking is like a simple bank which saves money but lends money to gain interest. Over these interests the make their profits and earn. Hence, they rule over by committing unlawful usury. In contrary, the Islamic banking does not earn through such a process as the collection and use of interest for business purposes is prohibited in Islam. It does the earning through trading of money, products, and property. In today’s world the international banks are conventional and lend money on huge amount of interests. In this article, we will be discussing both of the types of banks in detail and will try to make it open and easy to understand.

Let us discuss Conventional Banking first, so that it may be easy to clarify the differences while going through the latter half of this article.

**Conventional Banking**

**Working:**

What is banking? How do the banks work? Where do the banks get profit from? These are the questions that are to be answered in today’s discussion. To explain these points let’s take small example. Suppose you receive a paycheck of 10,000$. You do not want the money right now. So, we will deposit that money in the bank. The bank will give you a 5% interest on that money. Suppose someone is need of money. The bank will provide your money to that person by just keeping 10% of your cash reserves in the bank. Hence, your bank account on numbers will show 10,000$ and 9,000$ are given to that person as a loan. Thus, a cash flow of 19,000$ in the market and bank created this money out of thin air. Now how do the bank profit from this? The answer is that the loan receiver will give 8% interest on his loan. Thus, the money returned to the bank will be 10,800$. The bank will return you 10,500$ dollar (including the 5% interest as promised) and thus keeping 300$ for themselves. That is how the bank creates a cash flow in marked and create money through thin air.

**Base of Conventional Banking:**

Now we incline to the question that what is the base of conventional banking and how do the operate in such large amounts of money? So basically, the conventional banking is based primarily based on interest. The banks are giving loans on interests and earning from them. Then the question arises that how do the Islamic banks work? The answer is that the Islamic banks are based on trade and they earn their profits through trade. Now the banks lend the money you deposited to business and charge them higher interest rates. The difference between the interest rate of the business money and the interest the bank is paying you makes up the profit for the banks. The main idea behind this is to have more deposits which, henceforth, create more loans.

**Fractional Reserve Banking:**

Now our main purpose to deposit money in banks is to keep it safe. On the other hand, the banks lend out our money to business people and charge interest on them. So, this may result in loss of our money of the business drowns in loss? Well the answer is basically that the banks keep out 10% of our deposits as reserves called fractional reserves. These reserves our decided by Federal Reserve Bank. Moreover, the government provides a contract to the banks that if they go bankrupt then the government will help them. Thus, this gives banks an edge to invest in risky business because they have a backup for them. That is the reason banks have started loaning out too many businesses all around despite they have greater risk factors. The drawback of fractional reserve banking is that if all the people come for transaction of the money all at the same time thus the bank will go bankrupt, but the chances are very low thus its actually safe to deposit your money there.

**Why Do Banks Take Interest?**

Now the question arises why do the banks take interest? Why Islam had forbidden interest but still banking systems are dependent on it? While the main focus of the conventional banking is to operate as borrowers and lenders, the central role of Islamic banking is to operate as traders. Therefore, the earnings of the Islamic bank are as a result of trading activities. The trading activities include the leasing of assets, sale of commodities, investing into business and providing services. On the other hand, the conventional banks use interest as the source of income. In Islam the earnings come from the profit of sale whereas the interest is just the transfer of money where the lender has full hold over the lent money. The banks give loans to business and charge them interest which are the source of income for these banks.

**Why Islam Prohibited Interest and Not Profit:**

Islam prohibits interest due to the following reasons.

1. The source of profit is purely knowledge and skill whereas the source of interest is the control over the quantity of money only.
2. Profit brings on a creation in value and increases the living standards whereas the interest is the unjust transfer of money.
3. The profit does not always want the additional money but the interest forces you to give the additional money and the interest is not payable in aggregates
4. The interest money develops competition among the people and the wealth remains accumulated in a few hands whereas the profit distributed wealth among the people and the sense of accumulation of wealth decreases.
5. The biggest advantage of profit over the interest is that profit is the all positive sum game. That means that profit to one person is not loss to another person. Whereas the interest is the zero-sum game or maybe negative sum game because the loaner is indebted to more amount than payed.
6. The profit is determined after you have made it whereas the interest is upfront that means it is determined before the loan.

**Demanding Benchmarks:**

The conventional system of banking is based on demanding benchmarks rather than targeting benchmarks. This means that the investor decides ex-ante the profit he is going to get from the investment despite suffering a loss. Thus, if banks decide the amount of profit before the investment then that profit is also included in interest because it is ex-ante not ex-post. Now the question arises that how do the banks always take profits from the businesses despite there being a loss. The answer is that the banks give loans of huge amount after keeping a share of property or some things of equal value. If the businessman is unable to deliver the loan with interest in given amount of time then that piece of property of equal value is snatched from the business owner.

On the other hand, Islamic banking focuses on **Targeted Benchmark**. Now in targeted benchmark the profit is targeted and is tried to achieved. Though if we fail to turn up the profit there is no penalty on that because it was only intended to be achieved.

**Types of Banks:**

Now as we have discussed the main working of banking and how do the conventional banks make up their earnings through interest and create money through thin air now is the time to discuss the types of banks. Following are the major categories of banks:

1. Investment bank
2. Retail Banks
3. Commercial banks
4. Mutual cooperation banks

Now we will get a brief overview of these banks and their workings:

1. **Investment banks:**

Now what do investment banks do and how do they operate? Investment banks is a large proportion of the banks in our society. The functions that investment banks perform include:

1. They work as advisories for large co operations and share mutual profits.
2. They help large organizations manage large financial tasks.
3. They also hedge funds (Investment by limited number of partners).
4. **Retail Banks:**

The retail banks are the most common banks for the everyday customers and the functions and services include:

1. Besides having basic banking services, it also provides financial advertisement services
2. They can also offer loans and mortgages.
3. They provide loan to the consumers only but do not provide loan to large business co-operations
4. **Commercial Banks:**

These commercial banks provide the following facilities:

1. They are able to provide loans using all the individual deposited funds.
2. People can open small checking and saving accounts and take loans of small amounts as well
3. All the deposits are insured by Federal Deposit Insurance Co operation
4. **Mutual Co-operation Banks:**

Their functions include:

1. They can offer financial products that both retail and commercial banks provide.
2. The difference between these banks and the others is that in these banks the customers hold a share in the bank itself.
3. Hence these banks must be answerable to both their customers as well as the National banking regulations.

## Leasing in Conventional Banking:

A lease is a contract outlining the terms under which one party agrees to rent property owned by another party. It guarantees the lessee, the person the asset is leased to, use of an asset and guarantees the bank, the owner of the asset, regular payments for a specified period in exchange. In conventional banking, the expenses incurred in the process of purchase of asset are paid by the Customer, and also the penalty charges taken from Customer on late payment are taken as income by the Bank. This exploits the lessee because in a lease agreement it has been noticed that unrestricted power has been given to Bank to terminate the lease unilaterally. The unjust and exploiting behaviour of people has been condemned by the Prophet (PBUH):

***Ali ibn Abi Talib reported: The Messenger of Allah, peace and blessings be upon him, said, “Verily, Allah is kind and he loves kindness. He grants reward for kindness what is not given for harshness.” ([[1]](#footnote-1))***

## Saving Accounts:

There is a special type of account in banks called “saving accounts” which basically increases your money without you doing anything and by “lending” the money. Beyond keeping your funds safe, savings accounts also earn interest, so it pays to keep any unneeded funds in a savings account instead of accumulating cash in your checking account, where it will likely earn little or nothing. The bank invests a portion of your money into other businesses or gives loans to others with your money. And eventually they give you your money back with a fixed interest rate and you never lose money this way.

***The Prophet (S.A.W) said "Certainly a time will come when people will not bother to know from where they earned the money, by lawful means or unlawful means." ([[2]](#footnote-2))***

Since we do not know if this money is loaned or invested in something lawful or unlawful, it is considered haram for a Muslim. It is also haram because it is interest and the reasons why interest is haram is also mentioned in this assignment.

## The Use of Credit Cards:

The simplest way to think of a credit card is as a type of short-term loan. When you open a credit card account, your credit card company gives you a set credit limit. Credit cards let you borrow money up to the set limit, which must be repaid. You'll be charged interest if you don't pay your full statement balance by its due date, and you'll often be penalized for late payments. Certain scholars argue that credit cards are impermissible as one is entering into a fundamentally impermissible contract (as one is agreeing to pay interest in the case of a delay). Others (cautiously) deem credit cards permissible to the extent one does not actually borrow from the credit card company. The act of borrowing some money from someone interest-free is not itself impermissible – so long as you’re sure you’ll be able to pay the money back at the end and before the interest kicks in. That intuition is simple enough.

***Prophet (S.A.W) was reported by Abu Hurairah to say: “People will be resurrected (and judged) according to their intentions.” ([[3]](#footnote-3))***

## How People May Be Inclined to Conventional Banking:

In Non- Islamic banks: The bank says: $10,000 compounded on a Monthly basis over the course of 5 years at a 4% interest rate would be worth: $12,210. They tell you let's make the monthly payment $200. They calculate the interest every month.

What some Islamic banks do is: The bank says I will buy the car for $10,000; would you buy it for $15,000? We don't call it interest, its profit. If you say yes, they will buy it. You still have the option to refuse buying it from the bank. The $15,000 will be split into 60 payments of $250. So basically, they aren’t doing any work, except buying a car and selling it for much more and at times exploiting the person in need. Modern Islamic banks may disguise interest as profit, and continue exploiting the poor even more than non-Islamic banks.

## Conclusion on Conventional Banking:

The jurists who consider this relationship to be financial lending formulate it as a loan which has brought benefit to the lender. Thus, its ruling would be based on it being unlawful usury. But some hold different opinions, because some considered this a matter of necessities that are permissible for a Muslim to undertake whenever he is forced to, and is thus based upon the principle of ‘Necessities render the forbidden permissible’, which [in turn] is deduced from the all-encompassing words of God:  
  
***“But if anyone is forced to eat such things by hunger, rather than desire or excess, he commits no sin.”( [[4]](#footnote-4))***  
  
Other jurists maintain that this does not fall under the heading of necessities since necessity is legally defined as ‘something without which one would perish or come close to perishing’. Some of the jurists amongst this group maintain that it is permissible, based upon the principle of need being given the status of necessities - whether those needs are common or individual.

***“But those who take usury will rise up on the Day of Resurrection like someone tormented by Satan’s touch. That is because they say, ‘Trade and usury are the same,' but God has allowed trade and forbidden usury. Whoever, on receiving God’s warning, stops taking usury may keep his past gains—God will be his judge—but whoever goes back to usury will be an inhabitant of the Fire, there to remain.”* [2:275] ([[5]](#footnote-5))**

However, the controversy revolves around the true nature of what is derived from banks: whether it is an instance of usury (which is unlawful) or invalid contracts (which are unlawful); or a new form of contract which would be permissible if it achieves the interests of the parties involved and is free of anything which is legally prohibited. A person should avoid such controversial topics and have good intensions and do research on the bank before partnering up and forming a relation with them.

**Islamic Banking**

**Definition:**

Islamic Banking signifies those activities or methods of financial dealings that are in accordance with the Shariah (Islamic law).

What is Shariah?

Literally, Shariah means “*the clear, well-trodden path to water*”. However, in the Islamic religion, it means those set-specific instructions and regulations defined by Allah Almighty according to which a Muslim must spend and lead his life. Following are the major four sources through which such laws, or rather Islamic laws are derived from:

* 1. The Quran
  2. The Sunnah and Hadiths of the Prophet (PBUH)
  3. Fiqah (Interpretations by scholars from The Quran and Hadiths)
  4. Qiyaas (Relating the past with modern era)

After being aware and knowledgeable about the foundation of Islamic finance, let us look at the key points that make such a system differ from the conventional/western banking system.

* Islamic banks must follow the principles already laid by the Shariah, that is, one might say that such banks are bounded. Any activity that is prohibited in Shariah cannot be a medium of profit in Islamic finance. On the other hand, Conventional banks have no such concept.
* Islamic banking prohibits usury and speculation. Gambling or speculation of any shape or form is forbidden, which is referred to as *maisir* in Arabic*.* The Holy Quran and The Prophet (Peace Be Upon Him) have emphasized on the prohibition of Usury and Interest throughout their teachings.

We now discuss the two major groupings of Riba and some revelations and hadiths that signify the direness of such activity.

**Riba (Interest**): In literature, it means ‘increase’. The appellation of Interest in Islam is 'Riba' which is also more or less translated as the illegal activities or exploitations in business to achieve growth or have an increase in assets, which is quite similar to usury.

1. **Riba An Nasiyah:**

Riba An Nasiyah (commonly mentioned as Riba or Sood) means to extend or add more of something on a commitment. It refers to the 'interest' that has got to be paid by the borrower to the lender in conjunction with the base amount as a condition for the loan. Since this type of Riba has been declared prohibited, within the Holy Quran, it is called Riba Al Quran. Within the Quran, Allah Almighty said:

***"Whatever Riba (increased amount) you give, so that it may increase in the wealth of the people, it does not increase with Allah; and whatever zakat you give, seeking Allah's pleasure with it, (it is multiplied by Allah, and) it is such people who multiply (their wealth in real terms)."*([[6]](#footnote-6))**

1. **Riba Al Fadl:**

Riba AI Fadl is another major classification of Riba, which means that the plenitude that is exchanged for common goods, since such Riba is prohibited in Sunnah, it is also called Riba al Hadith. In a hadith narrated by Abu Sa'id al-Khudri the Prophet (PBUH) said:

**"*Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt - like for like, and hand-to-hand. Whoever pays more or takes more has indulged in Riba. The taker and the giver are alike (in guilt)."*([[7]](#footnote-7))**

**Definition of Money in Islam:**

The Shariah considers money to have no inherent value. Money is a measure of property only, and not valuable in itself; it is a medium of trade, but not an asset. Money, therefore, needs to be translated to goods to be useful. In Islamic banking, you cannot have a process of money-to-money. There must be a primary asset to create a profit. Investments, hence, are to be grounded on assets.

**For instance:**

If a bank announces a project in which it would construct some of the residential infrastructures, and for this, it put advertisements to attract the people to invest in it and gives them a time frame, e.g. 10 years, that if they keep on paying instalments for this time frame, at the end of 10 years, they would be the owners of their own house or apartment, etc. The bank would already have calculated that their total expenditure on this project suppose 1billion rupees, and at the end of 10 years they would earn a profit of 2billion. Now, most of the banks are likely to manage this project for 1-2 years and when they see more and more people are investing in the project, they try to sell the project to some third party. Suppose a construction company shows interest in buying in the project and offer to buy it for a 1.3billion, and the bank agrees to it. Thus, only in a time of maybe 1-2 years the bank earned a profit of 300 million. This profit comes in the context of money over money which is haram in Islam.

The wisdom behind this is that if after like 4 years the investors (people) stop giving the instalments then the third party which bought the project, might not get its due amount of profit or might even suffer loss, while the bank already has earned its profit. Thus, to be fair with all the parties in an agreement Islam has forbidden to earn money over money. Profit can only be earned on actual assets or services provided.

**The Fundamental Principle of Islamic Banking:**

The base principles that are taken into thought while implementing any Islamic funding matter:

* **Inviolability of Pact:**

Before executing any Islamic banking transaction, the counterparties have to agree on the validity of contract; that it is in accordance with Shariah.

* **Profit and Loss Sharing:**

An Islamic bank cannot give loans on interest; it gives loans to its client for a mutually agreed amount of time. If the client earns a profit using the loan, then he has to share some of the profit with the bank. But if he earns no profit, then he has to return the same amount or if he suffers a loss, then the loss will also be shared by the bank and client.

* **Absence of Riba (Interest):**

According to Shariah, Islamic banks are not be tangled in Riba (Interest) related transactions. They must not loan money to gain more money.

* **Economic purpose/activity:**

Each Shariah based banking deal has an acute monetary motive. Moreover, such dealings are financed by a concrete asset.

* **Fairness:**

Islamic banking teaches fairmindedness through its actions. Dealings based on doubtful situations cannot be a part of Islamic finance.

* **No invalid subject matter:**

While implementing a Shariah based dealing, it is safeguarded that no illegal or forbidden activity is backed by the Islamic bank.

**The Key Methods of Shariah Based Banking and Financing:**

Just like conventional banks, the Islamic bank also works like a financing institution to provide financial assistance to its clients. Some people deposit their money in the bank, so it will stay safe there, such people are called depositors. Thus, the bank is responsible for its safety. The bank can provide this money to the people who need it, on definite contracts. In these agreements, the bank negotiates the profit which it will receive from the clients.

Some of the such agreements an Islamic bank can implement:

**• Mudarabha:**

This terminology denotes a sort of a business dealing in which one participant invests wealth and where the other offers individual skills. The proportional part in revenue is set by a mutual agreement. The investor is termed as ‘rabal-maal’ and thus the participant offering skills as ‘mudarib’. In Shariah based banks, depositors, first, are the rabal-maal, as they deposit in the banks, and therefore the bank act as a ‘mudarib’, they provide the facility of finding a business and investing in it. As a technique adopted by Islamic banks, the capital they get from depositors is invested during a business that is managed by a third party. The revenue (that will generate) is distributed in predetermined ratios among the contract-bound parties. The bank passes on this loss or profit to the depositors. One can say that in Mudarabha, the depositor features a kind of saving account, but the depositor here doesn't always benefit, they face losses as well.

**• Qarz:** In Shariah banks, accounting deposits are reinforced by the code of Amanah/Wadiah; in other words, that of Qarz. Within the primary kind, interest-free deposits are kept by the banks in either assurance (Amanah) or in protection (Wadiah). Under the surety condition, the bank sees the funds as a trust and cannot use these funds for its actions. Under the protection condition, the bank is considered as an attendant and trustee of funds and has the investors’ consent to use the funds for its operations in a Shariah-compliant method. Deposits under protective case are treated as loans thus the bank promises repayment of the complete amount of the deposit. While these deposits can be withdrawn at any time, the investors’ have no right to profit from such funds. However, depositors, at the bank's pleasure, can be rewarded with a Hibah, however, to an extent that such gifts don’t become a permanent practice. Under the second condition, the bank also assures full repayment of the deposited amount on demand of the investor.

**• Murabaha:** From a literal perspective, it refers to revenue. Theoretically, it is an agreement of sale during which the supplier declares his charge and return. As a financing procedure, it involves a client requesting certain goods from the bank. The bank performs such a request by purchasing the product themselves and then reselling it to the client for a slightly more price as a service-fee. Such mode of financing is being widely implemented by Shariah banks to satisfy multiple types of financial requirements. It is used to fund a broad range of sectors, provided they comply with Shariah. However, the most common and well-liked application of Murabaha is financing the short-term trade of which it proves to be exceptionally suitable. Murabaha contracts can also be used to issue letters of credit and to sponsor imports.

**• Ijarah:** Literally, it is defined as ‘giving some product on rent’. In Shariah or Islamic law, Ijarah is often used for two separate circumstances.

In the first situation, it means using a service of a product owner with payment for his consideration and courtesy. The employer is known as ‘musta’jir’ while the employee is known as ‘ajir’. It can be summed up in this way; the ‘musta’jir’ employs the ‘ajir’, whose profession can be a doctor, a lawyer, a teacher, etc. The employer pays the employee for his services which are referred to as Ijarah.

The other type of Ijarah refers to the ownership of assets and properties. In this situation, it means to handover the ownership of a particular property to a specific person in exchange for a rent claimed from him. Throughout this circumstance, ‘Ijarah’ is parallel to the English word ‘leasing’. In this case, the Tenant is known as ‘ajir’ whereas the Renter is known as ‘musta’jir’. Therefore, the lease billed to the Tenant is known as ‘ujrah’.

**• Ijarah Wal Iqtina:**

An agreement within which a Shariah bank offers assets to the client in return for a settled rental cost and a one-sides undertaking of either party that at the end of rental term, the ownership would be shifted over to the client. The rental contracts are made in such a way that the bank receives the principal amount along with the service cost and hence, it profits.

**• Musawamah:**

Musawamah may be defined as a general sale during which worth of the product being dealt with is negotiated between the retailer and client. Therefore, the buyer has no regards to the worth paid by the former. Thus, it differs from Murabaha with reference to the pricing method. Unlike Murabaha, the retailer in Musawamah isn't required to disclose the worth of the assets. Both the partakers negotiate the cost. All other settings applicable to Murabaha are also applicable to Musawamah. Such mode is used where the seller is cannot deduce accurately the cost of goods that he is willing to retail.

**• Istisna’:**

Istisna’ refers to the practice of a client requesting another party to produce an asset. It is a long-term contract in which the producer has to hand over the ownership of the asset after the fixed period of time pre-determines in the contract. The key advantage of an Istisna’ is that it can prove flexible to the client, where payments are made in parts before, during, or after the production of the asset. Infrastructure plans are the most common examples of Istisna' contract’s practical application. The parties in such a contract are the Producer, the Bank and the Customer.  
For Istisna’ to be valid, the cost and charges must be pre-determined. In case of any unforeseen event, the delay in delivery is often amended, if mutually agreed on the contract. Istisna’ can never be cancelled one-sidedly.

**• Musharakah:**

Literally, it means sharing. The word “Musharakah” is derived from Arabic word Shirkah, which insinuates to the term companionship. Under Shariah, Musharakah means a combined firm formed for directing some business in which the profits are split equally whereas the losses are proportionate to the amount contributed by each member of such a firm. It is a faultless substitute to interest-based businesses that have a dire effect on both the production and division. "Shirkah" means "Sharing". There are further more derivatives of Musharakah, but we shall not go in depth as to what those are.  
In the framework of Shariah banks, Musharakah is a contract within which a bank offers funds that are mixed with the funds of the established firm. All the investors are authorized to be a member in its management but aren’t obliged to do so. The profit is scattered in pre-determined proportions whereas the losses are proportionate to the amounts contributed by either party.

• **Bai Muajjal:**

Lexically, it refers to a credit sale. Theoretically, it's a practice implemented by Islamic banks, which take the status of ‘Murabaha Muajjal’. It is a charge at which the bank earns profit on a client’s price and allows the customer to pay the price of the product on later date. Both parties are to clearly indicate and agree upon the value of the product as well as proportionality of the profit. The price of the commodity aforementioned in the contract of such a transaction is often equivalent to the actual worth.

**• Bai Salam:**

A sale contract which includes advance payment for goods that are to be transported after they are manufactured or produced. The objects of this sale are mostly things that can be commutable with another of an equivalent value. It is to be noted that such an object cannot be gold/silver because they are considered to be fiscal objects and their worth varies with the passage of time. Excepting this, Bai Salam take care of most of products that can be described on the basis of quantity, quality, and labour.

One factor among the settings of this contract is the advance payment. The parties cannot annul the payment of the assets one-sidedly, although, rescinding it on account of a substandard material is permissible. It is also a mode of funding implemented by Shariah banks. It is most practical in the agricultural segment where the bank pays in advance for multiple inputs to obtain a proportion of the crop which, then, the bank further sells in the market in hopes of getting a profit.

All these modes are well up-and-running in the current Islamic world and all of them are in accordance and compliant with the regulations laid by the Holy Quran and our Holy Prophet (PBUH). It is not compulsory for the banks to remain restricted to the previously-mentioned modes, rather, they can create any new type of contract, but its conditions must be within the parameters of the Shariah law, furthermore the conditions must be deemed valid by a renowned Shariah scholar.

We shall now discuss the ways in which the aforementioned mediums of banking are similar and how they differ.

**Similarities and Differences**

In 1400’s people used to say that trading and Riba (interest) are the same thing as Allah says in the Quran:

***“That is because they say, ‘Trade is (just) like interest.”* ([[8]](#footnote-8))**

But in the same verse Allah clarifies soon after this as:

***“But Allah has permitted trade and has forbidden interest.”* ([[9]](#footnote-9))**

Thus, the concept was proved wrong as the Islamic banking relies on trading while the conventional banking on Riba or interest.

1. The **Islamic Banks** operate in the same society where conventional banks operate and perform all those functions which are expected from a financial institution
2. **System**: The first thing about these two banks is that a conventional bank borrows money in the form of deposits and then it lends money to gain interest and thus the profit.

However, the Islamic banking works on the multitude of trading structures. It includes the partnership between share-holders, the depositors, and the borrower.

Another thing about them is that beside the government or the system itself the Islamic banks are supervised under an extra governance of shariah.

1. **Deposits**: These both financial institutions collect deposits from savers for reward. However, the difference comes in the agreement of reward. In conventional banking it is fixed but in Islamic banking the value of reward varies as the deposits are accepted through Musharaka or Mudaraba.
2. **Financing and Investments**: Second, the conventional banking receives profit through interests on borrowed money or property. But on the contrary the Islamic banking profits through trading. It may be gained through the following methods:

* Murabaha: selling products and earning through the profit received
* Ijaraha: leasing of assets through renting property.
* Musharaka / Mudaraba: in participation-based structure and earning through profit sharing. (investment into business)
* Wakala: The agency-based structure, this includes a principal and his employees those who work to gain money. (providing services)

1. **Musnad Aḥmad 904** [↑](#footnote-ref-1)
2. **Sahih al-Bukhari 2083** [↑](#footnote-ref-2)
3. **Sahi al Bukhari Book 37, Hadith 130** [↑](#footnote-ref-3)
4. **Surah al Baqarah [2: 173].** [↑](#footnote-ref-4)
5. **Surah al Baqarah [2: 275]** [↑](#footnote-ref-5)
6. **First Revelation (Surah al-Rum, verse 39)** [↑](#footnote-ref-6)
7. **(Muslim, ibid; and Musnad Ahmad)** [↑](#footnote-ref-7)
8. **Surah al Baqarah [2:275]** [↑](#footnote-ref-8)
9. **Surah al Baqarah [2:275]** [↑](#footnote-ref-9)