THE CONCEPTS OF ISLAMIC BANKING

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Annotation: Islamic banking is an interest free banking system and is governed by the principles laid down by Islamic Sharia'h.

Key words: commercial bank, investments, Shariah, Philosophy, Justice and Fairnes Discouraging Speculation , Maisir , Gharar , haram

Intraduction

According to Islam law, partnership are of various kinds but one best to the purpose of banking is a partnership whereby two or more people add to business, per one being an agent for the other. The capital is not necessarily to be allocateequally and profit to be divided according to the terms agreed upon between them . Under the principles of what is not forbidden is permissible , according to Musleh Uddin , an Islamic Bank may be one company , an association or a concern owned by an individual . An Islamic Bank would be a commercial bank . While the objective of the Bank would be to earn profit , it would identify it self with the Shariah as regards objectives , principles , practices and operations . Islamic bank would be undertake all normal banking business as is done by interest-based banks but the Provisions of Shariah would be kept in view at all times. The Banks would develop risk bearing but competitive products for deposits / investments wherein depositors / investors are given reasonable assurance of higher returns as also of safety of their funds . This bank would also develop innovative but competitive products for Financing which are not only compatible with Shariah but also cater to the needs of traders in the modern complex world which is ever – changing

Banking is a concept that exists in different shapes and forms in society. There are various systems of banking across the globe. However, the most popular types of banking are conventional and Islamic banking. Regular banking operations involve borrowing money from customer deposits and lending it to make profits. The Islamic banking system works differently. The system is under the guidance of the service partnership principle, where the shareholders, borrowers, and depositors all take part in the sharing of profits and losses. What is important to note about Islamic banking is that it operates under Sharia law, and all bank operations must operate under those Islamic principles. Islamic banking has financial transaction rules known as Fiqh al-Muamalat, which is culturally different from ethical investing. For instance, investing in things such as gambling, alcohol, pork, among other forbidden items is not allowed. Islamic banking is widespread. More than 300 Islamic banks are operating in over 51 countries, the United States inclusive.

What are the Rules of Islamic Banking?

To be able to know how Islamic banking works, first you must understand the rules involved in Islamic banking. The majority of Sharia scholars agree that a commodity's credit price can exceed its cash price. So, the Islamic Fiqh Academy of Sharia Board and IOC of all Islamic banks, support the legality of this difference. Nevertheless, once there is mutual agreement about the price, no addition to the price is allowed. The main goal that Islamic banking strives to achieve is procuring money without imposing premium charges on the principal amount. Islamic banks make use of value support frameworks to realize this. The credit cash to a business and the business repays the advance without any premium.

The principles of Islamic banking operate under Sharia Law, founded on the Quran and Hadith. These are the recordings of the actions and sayings of the prophet Mohammed. So, the bankers ensure that the banking activities do not deviate from the Qurans fundamental principles. The principles are as follows:

Non-payment of interest

According to Islam teachings, lending money with interest payment is exploiting the borrower and favoring the lender. So, the Sheria law does not allow interest payment, also known as riba.

Investing in Businesses Involved in forbidden Activities

Islam teachings consider business activities such as alcohol and pork selling as haram (forbidden). Investing in these types of businesses will be going against the Sharia law. The law, therefore, prohibits Islam believers from investing in these types of business activities.

Speculation also (Maisir)

Sharia law forbids any form of gambling or assumption, which they refer to as maisir. It means that Islamic financial institutions are not allowed to be part of contracts whose owners depend on uncertain future events.

Risk and Uncertainty (Gharar)

According to the rules of Islamic finance, participating in contracts with extreme uncertainty and risk is prohibited. Muslims refer to this as gharar. The term gharar assesses the legitimacy of uncertain or threat when it comes to nature investments. The use of Gharar applies to short-selling and derivative contracts that Islamic finance prohibits. About Islamic Banking

Islamic Banking: It is defined as a banking system that conforms to the Islamic spirit, moral values and value system and is governed by the principles laid down by Islamic Shari'a. Interest-free banking is a narrow concept that refers to a number of banking instruments or transactions that avoid interest. Islamic banking, a general term, is based not only on avoiding interest-based transactions prohibited by Islamic Sharia, but also on avoiding unethical and unsocial practices. In a practical sense, Islamic banking is the transformation of ordinary monetary credit into operations based on tangible assets and real services. The Islamic banking system model leads to achieving a system that helps achieve economic prosperity.

Philosophy of Islamic Banking

The philosophy of Islamic banking is guided by Islamic Sharia. According to Islamic Shari'a, Islamic banking cannot engage in transactions involving interest/riba (an implied or required increase in the principal amount of a loan or loan). Also, they cannot engage in transactions that have an element of Gharar or Maiser. Moreover, they cannot enter into any transaction whose subject is void (forbidden in the eyes of Islam). Islamic banks focus on generating income through Shariah-compliant investment vehicles. Islamic Shari'a relates the return of capital to its efficiency. Islamic banking operations operating within the framework of Sharia are based on sharing the risks that may arise from trading and investment activities using various Islamic finance methods contracts.

Essentials of Islamic Banking

The Financial System Reform Commission, established in the State Bank of several countries, introduced Islamic financing methods, including Musharaka, Mudaraba, Murabaha, Musawama, Leasing, Salam, and others. confirmed. Exception. The Shariah Board of the Bank of States has reviewed and approved these basic principles of Islamic financing methods and recommended that the same methods be sent as guidelines to banks conducting Islamic banking business in the countries.

The advantages of Islamic banking

Justice and Fairness

The foundation of the Islamic Banking model is based on a profit-sharing principle, whereby the risk is shared by the bank and the customer. This system of financial intermediation contributes to a more equitable distribution of income and wealth

Banking for All

Although based on Shari'a principles, Islamic Banking is not restricted to Muslims only and is available to non-Muslims as well.

Transparency

Islamic Banking is about conducting business in a fair and transparent manner. Guiding you through to ensure full understanding of risks and costs associated with the products and services is the utmost prerogative.

Ethical and Moral Dimensions

The strong ethical and moral dimensions of doing business and selecting business activities to be financed play an important role in promoting socially desirable investments and better individual or corporate behaviour.

Discouraging Speculation

Speculative transactions are sources of instability and by nature is misallocation of capital. Islamic Banks are prohibited from carrying out such activities, rather focusing in deployment of capital to the real economy, to promote socio economic justice.

Conclusion : The Islamic banking system is, in principle, compatible with a close correspondence between financial and real rates of return and an efficient allocation of resources. Moreover, it could be adopted without harming the effectiveness of official supervision of financial intermediation.

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