**Question:** What is Shariah?

**Answer:** Shariah lexically means a right path. In Islam Shariah refers to the divine guidance & laws as given by the Holy Quran, the Hadith (sayings), the Sunnah of the Prophet Muhammad (Peace Be Upon Him) and supplemented by the juristic interpretations of Islamic scholars. Islamic Shariah embodies all aspects of the Islamic faith, including beliefs, prayers, earning a livelihood, economic activity and practices in mutual interaction in daily life of an individual, a community and a country.

**Question:** What are the sources of Islamic Shariah?

**Answer:** Islamic Shariah or the divine law of Islam is derived from the following five sources:

1. The Holy Quran
2. The Sunnah of the Holy Prophet (Peace Be Upon Him)
3. Ijma’ (consensus of the Ummah)
4. Qiyas (Anology).
5. Ijtehad

**Question:** What is a Fatwa?

**Answer:** A Fatwa is an authoritative legal opinion based on Shariah (Islamic law). A Fatwa is issued by a qualified person or body (e.g. Shariah Board or Shariah advisor) with authoritative knowledge on Islamic laws and principles.

**Question:** What is importance of purifying the source of income or halal earning in Islam and how Islamic banking can in this manner?

**Answer:** In Shariah, halal or purified source of income is an essential duty of every Muslim. The main purpose of Islamic banking is avoidance of Interest & riba, which is haram and prohibited in Shariah and enabling a halal and pure earning for the customers, employees and shareholders of an Islamic bank.

**Question:** What is Riba or Interest?

**Answer:** Riba literally means increase, addition, expansion or growth. It is, however, not every increase, or growth, which has been prohibited by Islam. In Shariah, Riba technically refers to the premium that must be paid without any consideration. According to the jurists of Islam this definition covers the two types of Riba, namely Riba Al Naseah and Riba Al Fadhil.

Riba al Nasiah (commonly referred as riba or sood): Literally means increase or addition of debt and it refers to the premium that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or an extension in its maturity. This riba is the addition of premium or service charges or markup that is paid to the lender in return for his waiting as a condition for the loan and is technically the same as interest or sood.

Riba al Fadhil: The second classification of Riba is Riba al fadl. Since the prohibition of this Riba has been established on Sunnah, it is also called Riba al hadees. Riba al-fadl actually means that excess which is taken in exchange of specific homogenous commodities and
encountered in their hand-to-hand purchase & sale as explained in the famous hadith:

This is an extension of Riba to trade, because while trade is allowed, not everything is permitted in trade. The prohibition of Riba al-fadl closes all back doors to Riba through trade. If a person transacts in an unlawful excess charged in the exchange of two equal-values of the same commodity where the excess is measurable through weight or measure of that same commodity, he is guilty of Riba al Fadl.

**Question: What are the rulings of Quran about Riba / Interest?**

**Answer:** In the Holy Quran, there are four sets of Ayahs that are revealed about Riba and its prohibition. These are as follows:

**Quranic Verses related to Riba:**

1. **First Revelation (Surah al-Rum 30, Ayah 39)**

2. **Second Revelation (Surah al-Nisa 4, Ayah 161)**

3. **Third Revelation (Surah Al Imran, verses 130 - 132)**

4. **Fourth Revelation (Surah al-Baqarah, verses 275-281). Ayah 275 forbids Riba:**

"Those who benefit from interest shall be raised like those who have been driven to madness by the touch of the Devil; this is because they say: "Trade is like interest" while God has permitted trade and forbidden interest. Hence those who have received the admonition from their Lord and desist, may keep their previous gains, their case being entrusted to God; but those who revert shall be the inhabitants of the fire and abide therein for ever.” (Ayah275)

**Question: What are the sayings / Ahadiths of our Holy Prophet about Riba / Interest?**

**Answer:** According to Islamic jurists and scholars there are around 40 different Ahadiths on the subject of riba & its prohibition related from our Holy Prophet (Peace Be Upon Him).

**Few of them are as follows:**

1. From Jabir : The Prophet, , may cursed the receiver and the payer of interest, the one who records it and the two witnesses to the transaction and said: "They are all alike [in guilt]." (Muslim, Kitab al-Musaqat, Bab lani akili al-riba wa mukilihi; Abdallah ibn Hanzalah) :

2. From Abu Hurayrah : The Prophet, , said: "God would be justified in not allowing four persons to enter paradise or to taste its blessings: he who drinks habitually, he who takes riba, he who usurps an orphans property without right, and he who is undutiful to his parents." (Mustadrak al-Hakim, Kitab al-Buyu)

**Question: What is Islamic Banking?**

**Answer:**Islamic banking is system of conducting trade and banking activities in line with the principles of Islamic Shariah while avoiding all the prohibited activities such as interest or riba, Gharar, financing of haram trades & businesses etc.
It is not banking which is based on pricing money and earning interest as conventional interest based bank do but it is a system of trade where goods and services are sold and capital is invested by taking risk to earn halal profits. It is also not just change of name as many mis-understood but it is based on the Quranic injunction of

“Allah has permitted trade and forbidden interest”. (Surah al-Baqarah, Verses 275)

Interest free banking is a subset of Islamic banking concept denoting a number of banking instruments or operations, which avoid interest. However, Islamic banking is a more general term that aims not only to avoid interest-based transactions, as it prohibited in the Islamic Shariah, but also to avoid all unethical & immoral practices and participate actively in achieving the goals and objectives of an Islamic economy.

**Question: The end result of Islamic Banking and Conventional Banking is the same. Why do they appear similar?**

**Answer:** The validity of a transaction does not only depend on the end result but rather the steps followed in reaching the end. If a transaction is done according to the rules of Islamic Shariah for achieving a permissible end result then it is completely permissible no matter the end result may look similar if it would have been done via using a interest based solution.

For example a normal McDonalds burger in USA and Pakistan looks the same, smells the same and tastes the same but the former is haram and the later is halal due to its compliance of Islamic guidelines of slaughtering animals.

Similarly if a person is feeling hungry, he may stole a piece of bread and eat or alternatively he could buy a piece of bread to eat. The apparent end result would be same but in one is permissible in Shariah and the other is not allowed.

The same is also true for Islamic and conventional banking. Apparently they may look or feel as same and but Islamic banking is permissible and the interest based banking is not allowed is like a declaration of was against Allah & His Messenger.

**Question: Is interest only prohibited in Islam only?**

**Answer:** Prohibition of interest is not limited to Islam it is also prohibited in Judaism and Christianity


**Question: Why Interest/Riba is prohibited in Islam?**

**Answer:** First of all, as a believer we must accept all the injections of Islamic Shariah whether we understand the logic behind them or not.

Secondly to give a brief answer to what this we would like to quote what Imam Al-Ghazali pointed out 900 years ago in the following words:
"Riba (interest), is prohibited because it prevents people from undertaking real economic activities. This is because when a person having money is allowed to earn more money on the basis of interest, either in spot or in deferred transactions, it becomes easy for him to earn without bothering himself to take pains in real economic activities. This leads to hampering the real interests of the humanity, because the interests of the humanity cannot be safeguarded without real trade skills, industry and construction."

**Question: Is there a difference between interest and usury?**

**Answer:** The Holy Quran has used the word Riba to explain any excess taken on any type of loan. Through several Hadith, it is also proved that any amount taken over and above the principal in a loan is Riba whether it is for commercial or productive purpose or for consumption purpose.

This is the conventional banking system that has classified two different terms as commercial interest for businesses and usury for consumption loan.

For example if Mr. X takes loan from a bank to start a business then the amount he will pay to the bank regardless of profit & loss in the business would be called interest or commercial interest. On the other hand, if he takes loan to purchase a computer for his personal use then the amount paid over and above the principal would be usury.

But according to Islamic principals, the both types are of Riba and are not permissible. Therefore, we should restrain ourselves from such activities.

**Question: Can Interest rate be used as a Bench Mark?**

**Answer:** Using Interest Rate benchmark for determining the profit of any permissible transaction like sale or Murabaha does not render the transaction as invalid or haram. The nature of transactions determines the validity of the transaction.

For example A and B are two brothers. A sell liquor that is totally prohibited in Shariah. B, being a practicing Muslim dislikes the business of A and starts the business of soft drinks, but he wants his business to earn as much profit as A earns through trading in liquor, therefore he resolves that he will charge the same rate of profit from his customers as A charges over the sale of liquor. Thus he has tied up his rate of profit with the rate used by A in his prohibited business.

One may say that B uses an awkward benchmark in determining the rate of profit, but obviously no one can say that the profit charged by him in his halal business is haram, because he has used the rate of profit of the business of liquor as a benchmark.

The same is true for Islamic banks, it is most desirable & preferable that Islamic banks develop their own benchmark for profits however; in the absence of any such alternative interest rate related benchmark can be used.

**Question: Is charging penalty on late payment allowed?**

**Answer:** Taking interest in the form of late payment penalty or in any other form is strictly prohibited in Islamic Shariah. However, in order to safe guard Islamic banks...
from being exploited and to instigate a financial discipline the customer can be asked to give a unilateral undertaking to pay a certain amount for charity to be utilized for charitable purpose as approved by the Shariah Supervisory Board or Shariah Advisor of the bank. However it is very clear that any amount in this charity pool cannot be considered as bank income.

**Question: The price of cash sale and deferred sale can be different? Will it not cause interest?**

**Answer:** If a commodity is sold in exchange of money, the seller, when fixing the price, may take into consideration different factors, including the time of payment. A seller, being the owner of a commodity, which has intrinsic utility, may charge a higher price and the purchaser may agree to pay it due to various reasons. Thus at the time of the execution of the sale transaction the seller can charge a higher price if the buyer is paying on deferred basis.

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