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The Un-Islamic Practice of a So-Called Islamic Finance Company

While a sizable number of Muslim investors are still recuperating from the scar given to them by Al-Falah brand of Islamic finance companies there has emerged another 'al'-brand of company claiming itself to be an associate of a multinational Islamic finance group. Unlike the erstwhile Al-Falah group this company has adopted another route for harassing poor Muslims.

The company would approach the local traders with an option to finance their trades in Islamic method. In this way people will get rid of the cumbersome and time taking procedure normally adopted in conventional finances. In the name of helping them avoid the blight of *Riba* and reap *Barakah* here and the Hereafter, what happens actually in this kind of finance is people end up paying more than 50 percent interest in disguise of Islamically permissible *Murabahah*. What is more disgusting and purely un-Islamic is that in return of the finance provided, the company asks for post dated cheques with amounts and dates unfilled, as a security for the finance facility. When asked the reason they will tell you, "this is just a formality". After that instead of providing the tradable, which is a must for *Murabahah* to become Islamically permissible, the company would simply give the cash or transfer the liquidity in your bank account.

Under the Islamic principle of loaning it is must for the lender to give borrower a reasonable time to return his due. ***"And if the debtor is in a hard time, then grant him time till it is easy for him to repay…."*** **(Al-Quran, 2: 280).** What happens at this finance house is that after waiting for some time they will call you to inform that your arrest warrant from the head office has arrived, as you failed to return money including interest (*Murabahah*) on time. Now you have the options either to pay all the dues immediately or go to the H.O. (situated thousand miles away) to fight your case. Obviously the loanee will choose the former.

Under normal circumstances a company has a right to bring its defaulter to the court but what makes a matter different is that when a company, calling itself Islamic, finances its customer through money it cannot charge any thing over and above the principal of whatsoever time laps may be. It can only charge higher when it actually purchases an item needed by the borrower because now the company is engaged in trading instead of providing cash to the borrower. In this case all the risks associated with the purchased items remains with the company till the payment by the borrower is made in full.

Any security (including the post-dated cheques) cannot be recoursed to legal options unless the provision of it is mentioned in the agreement and a copy of the same is also provided to the borrower. Moreover, a borrower is also liable to be informed in advance of any such action of the financier. Unless these Islamic stipulations are kept in mind any unilateral action of bi-lateral trade will only be tantamount to harassment.

Hence there is an urgent need to check the growing menace of pseudo Islamic finance companies, whose quick buck psychosis has already done enough damage to the cause. Islamic economists and financial experts must ensure proper enforcement of Islamic values by all those who are claiming to be working on Islamic principles. Or else the ilk of Al-Falah will continue looting and plundering gullible people in the guise of Islam.

Shariq Nisar

Comment [A1]: change

International Workshop: Islamic Financial Services: Opportunities & Challenges

IBF Net in association with several international financial and academic institutions proposes to organize a two-day intensive workshop on Islamic Financial Services: Opportunities & Challenges at Chennai, India. Day One of the program would target bankers, accountants, financial analysts, legal professionals, business executives and entrepreneurs. Day Two would target the community of students and researchers. The purpose of the program is to create awareness among these two classes of participants regarding the tools and models of Islamic finance and its enormous potential in a country like India that has the second largest Muslim population in the world.

Program Details:

Date: November 21
Venue: Hotel Radisson, Banquet Hall
Islamic Banking:
Trade Finance, Home Finance, Consumer Finance, Credit Cards, Venture Finance, Infrastructure Finance
Islamic Insurance:
Models of Takaful, General and Family Takaful Islamic Investments: Sukook, Islamic Securities Market, Islamic Equity Funds, Real Estate Funds, Hedge Funds
Date: November 22
Venue: Hotel Mars, Banquet Hall
Career Opportunities in Islamic Financial Services, Research Gaps in Islamic Finance

Speakers:

- Dr Sami Al-Suwailem, Director (Research) Al-Rajhi Banking & Investment Corporation, Saudi Arabia
- M. Hidayathullah Baig, Asst. Vice President, Infrastructure Development Corporation of India
- Dr H K Pradhan, Professor of Finance, Xavier Labour Relations Institute, India & UAE
- Dr M Obaidullah, Associate Professor, Islamic Economics Research Center, King Abdulaziz University, Saudi Arabia
- Dr Abdul Azim Islahi, Associate Professor, Islamic Economics Research Center, King Abdulaziz University, Saudi Arabia

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AMU Awards PhD in Islamic Banking

Aligarh Muslim University in its 55th Annual convocation has awarded PhD in Islamic Banking. The Awardee Mr. Shariq Nisar completed his Ph.d. on "Recent Developments in Banking Organization With Special Reference to Islamic Banking and Finance" under the supervision of Dr. Abdul Azim Islahi now serving at the Islamic Economics Research Centre, King Abdul Aziz University, Jeddah, Saudi Arabia. Mr. Shariq Nisar, besides his research activities, has also been serving the *Islamic Economics Bulletin* as Joint Editor since January 2000. This is to note that besides providing research facilities in Islamic economics and finance, AMU is the first Indian University to offer Post Graduate Course in Islamic Economics.

Call For Papers

The Islamic Conference Group, UK is organizing two day International Conference on "**Finance for Energy, Resources & Infrastructure: The Role of Islamic Finance**" during October 7th & 8th, 2004, at the Raddison SAS Portman Hotel, London

The conference theme includes;
New and Emerging Challenges for Financing the Energy & Resources Sectors: the Global Perspective and Policymakers Forum = Mobilising Islamic Financing Structures and Instruments = Regional Opportunities = The Industry Perspective = Legal Issues in Islamic Finance = Political Risk Mitigation and Financial Incentives = Emergence of Global and Regional Financial Centres as Facilitators of Islamic Finance = Oil Pricing and Issues of Currency Stability - the Changing Role of the Dollar, The Gold Dinar and its proponents = Future Scenarios.

Deadline for submission: July 1, 2004.
Notification of acceptance: July 30, 2004
For more information contact: qfayyaz@btopenworld.com

News Digest

- In the shareholders' meeting the Middle East Bank (MEB), a subsidiary Emirates Bank Group, UAE, approved the proposal to convert the bank into an Islamic bank and change its name to Emirates Islamic Bank.
- The Qatar International Islamic Bank (QIIB) has finalised talks with Syria's industrial and trade group Daaboul Economic Group to establish a joint Islamic bank in Syria.
- The State Bank of Pakistan would only issue banking licences for setting up exclusive Islamic banks. The Governer SBP said that there were already too many of the conventional banks and the central bank was stressing for mergers and consolidation.

Letter to the Editor

Dear Sir,

Islamic Economics Bulletin is a welcome addition in the literature on the subject. In my view, now-a-days a lot of work is underway in the areas of Islamic banking and finance, but new work on Islamic Economics is not getting much attention. Therefore, there is a need for more work in this area.

I was particularly interested in the article of Dr. Abdul Hasib – On the failure of Islamic banking, in which he has identified the reasons for failure of Islamic banking institutions in India. It would be very helpful if some examples of failed institutions be provided to the readers. From reading the article it appears that these were some co-operative sort of institutions without proper regulation and control by the authorities and not full fledge banks licensed by the central bank. If this was the case, then it would be a bit unfair to call it a "failure of Islamic banking". As I am not living in India, therefore, I do not have any first hand experience or knowledge about such institutions. For developing a viable and dynamic Islamic financial system we need to learn from experiences in different countries so that weaknesses/deficiencies could be removed and success stories be translated all over the world.

Best regards,
Mahmood Shafqat

New Books and Articles

Books:

1. AHMAD, Khurshid, *The Contemporary Economic Challenges and Islam*, Islamabad, Pakistan: Institute of Policy Studies, 2003, 57pp.
2. DODGE, Toby and HIGGOTT, Richard (eds.), *Globalization and the Middle East: Islam, Economy, Society and Politics*, London: Royal Institute of International Affairs, 2002, 200pp.
3. HASSAN, Nik Mustapha Nik and MUSA, Mazilan (ed.), *The Economic and Financial Imperatives of Globalization: An Islamic Response*, Kuala Lumpur, Malaysia: Institute Of Islamic Understanding, 2000, 403pp.
4. KHAN, M. Akram, *Islamic Banking and Finance: A Glossary,* (2nd Edition), London: Routledge, 2003, 195pp.
5. NAQVI, S.N.H., *Perspective On Morality and Human Well-being – A Contribution to Islamic Economics*, Leicester, UK: The Islamic Foundation, 2004, 276pp.

Articles:

1. AHMAD, Khurshid, 'The Challenge of Global Capitalism: An Islamic Perspective', In: J.H. Dunning (ed.), *Making Globalization Good: The Moral Challenges of the Global Capitalism*, Oxford, UK: Oxford University Press, 200?, pp.181-209.
2. ALATAS, S. Farid, 'Introduction to the Political Economy of Ibn Khaldun', *Islamic Quarterly* (London), Vol.45, No.4, 2001, pp.307-24.
3. AMINE, Muhammad Al-Bashir, 'Islamic Banking and Finance and the Challenges of Globalization', In: *Youth and Globalization: Proceedings of WAMY'S International Conference*, Riyadh, Saudi Arabia: World Assembly of Muslim Youth, 2002, pp.9-28.
4. CHOUDHARY, M. Alam, 'Islamic Political Economy', *Review of Islamic Economics* (Leicester, UK), No.13, 2003, pp.49-71.
5. KHAJEHPOUR, Bijan, 'Iran's Economy: Twenty Years after the Islamic Revolution', In: J.L. Esposito and R.K. Ramazani (eds.), *Iran at the Crossroads*, Basingstoke, UK: Palgrave, 2001, pp.93-122.
6. MARUF, Mohammed, 'The Islamic Economic System: A New Approach to World Problems', *Iqbal Review* (Lahore, Pakistan), Vol.42, No.2, 2001, pp.85-96.
7. SUBAIR, Kola, 'Economic Revival and Management in Nigeria: An Islamic Economic Model', *Journal of Islamic Banking and Finance* (Karachi, Pakistan), Vol.19, No.3 2002, pp.33-51.
8. SUWAILEM, Sami Ibrahim Al-, 'Decision-making Under Uncertainty: An Islamic Perspective', In: M. Iqbal (et.al.) (eds.), *Islamic Banking and Finance: New Perspective On Profit-Sharing and Risk*, Leicester, UK: The Islamic Foundation, 2002, pp.35-39.

Book Review

Islamic Banking and Finance: New Perspectives on Profit Sharing and Risk

Editors: Munawar Iqbal and David, T. Llewellyn
Publisher: Edward Elgar, Cheltenham, UK, Northampton, MA, USA, 250pp. 2002

This collection of ten papers, presented at the Fourth International Conference on Islamic Economics and Banking held at Loughborough University, UK on August 2000, has been reviewed by Prof. Rodney Wilson in *Islamic Economic Studies* (Vol. 10, No. 1, pp. 83-89). In this review I comment on just one of the essay- "Islamic financial institutions in India: their nature, problems and prospects" by Dr. M.I. Bagsiraj.

Bagsiraj begins with the claim that there are 'over 300 Islamic Financial Institutions in India'. This is grossly exaggerated. One could barely count ten Islamic financial institutions in the country; the rests can at best be called Muslim financial institutions. These are mostly saving and loan societies set up to meet local needs for crediting. Further, he presents a case study of an institution that itself has never claimed to be Islamic. Remarkably, he shows how a major portion of the income of Muslim Fund Najibabad (p. 177) comes from interest based commercial bank.

Bagsiraj claims: 'It is against great handicaps and constraints that various IFIs (Islamic Financial Institutions) are operating and gradually expanding their sphere of economic influence in India' (p. 169). In fact opposite is true -- the IFIs have been shrinking faster then ever. One of the largest Islamic business houses, presented among the case studies, had been liquidated before the author presented this paper at the Loughborough conference, but the chose not to mention this in his study.

He states that 'the enactment of Non Banking Finance Company Act in 1998 is posing a great many operational difficulties for IFIs in India. For the first time, they have come under greater scrutiny of the Reserve Bank of India's prudential norms' (p.169). But the fact is that this NBFC Act has been there in practice since 1963. Bagsiraj himself, at another place, mentions the imposition of NBFCs norms in the year 1997 (p. 187). More generally, the argument about the greater scrutiny of IFIs in India is also not true as in India IFIs are just like any other financial company in the country- the same laws apply to all of them.

In section four of the paper, on Muslim Funds and Islamic Welfare Societies, Bagsiraj says: 'these are non-profit institutions and are generally small in size. They mobilize interest free local savings and extend interest free loans usually against the security of gold ornaments' (p. 174). In reality, many of these organization are profit seeking and are comparatively the largest Muslim financial institutions in the country. As for security, most of the Muslim Funds do offer loans against ornaments including gold, but they also impose a charge on their loans, giving it different name (cost of loan form, cost of security, or service charge).

Contd. p.4

Contd. p.3

These charges are 1-2 percent lower than the charges imposed by the commercial banks in the country. The author acknowledges this when he says that charges on loans are arbitrarily fixed. (p. 174 and p. 176).

Bagsiraj claims (p. 174) 'Overall, there may be more than 300 Muslim Funds and Islamic Welfare Societies functioning in India. Their total working capital, is estimated to be around one crore rupees'. This is contradicted later in the paper (p.187) where the author says: 'The total working capital of IFIs of India is only about Rs. 300 crores'. Neither statement is supported by data or references. The claim that Patni Cooperative Credit Society Ltd. (p. 179) was the earliest effort to establish an Islamic financial institution is also without substance. (See, Hamidullah, Mohammad, *Maarif,* 53:3, 1944, p.p.211-6).

Several statements in section six are misleading. For example: 'None of the IFCs of India was able to secure RBI registration until April 1999. This is because they did not fulfill the prudential norms set by the RBI' (p. 182). This gives the impression that, prior to this, all the IFCs were unregistered. However, the fact is that the RBI prepared a new application format for Non Banking Finance Companies (NBFCs) in 1998 and asked all the NBFCs including the Islamic ones to re-apply on the new format. Since there were more than fifty thousand NBFCs functioning at that time, it took the RBI a long time to process the applications. The registration certificates to many IFIs including Al-Baraka/Al-Barr Finance House Ltd. and Barkat group itself are evidence that the reason for the delay was not as mentioned by the author.

Section 6.1.3 (p. 185) says 'The RBI has classified most of the IFCs in India as leasing companies'. If that is so, why did the RBI bother to classify non-registered IFCs? In reality this is again an unsubstantiated statement.

Barkat group never practiced *Murabahah* financing (See, *Islamic Economics Bulletin*, "The Future of Islamic Finance in India", Vol. 12, No. 5) as section (6.1.1, p. 183) suggests.

In section seven Bagsiraj discusses the future prospects of IFIs in India. He maintains that 'Al-Ameen Islamic Financial and Investment Corporations AIFIC, Barkat Leasing and Financial Services Ltd., (BLFSL), and Muslim Fund Najibabad (MFN), together have about 100 branches in different parts of the country'. This is again an exaggerated figure. He himself notes that Al-Ameen has 25 branches (p. 182), and MFN has 29 branches, (p. 174). If we had the 19 branches of the Barkat group, including the three in Mumbai, the total number of branches of these companies together 73, well short of 100.

Bagsiraj did a survey on awareness of IFIs in India, and presents the result at the end of the article. He covered 24 cities of twelve Indian states. Unfortunately the two states with the most concentrated Muslim population, namely Jammu and Kashmir and Assam were not included, whereas the two states, namely Haryana and Panjab with the least Muslim population in proportion to others were. This obviously puts a big question mark on the representative nature of the data.

Section eight makes for an impressive conclusion to the article, but it does not make up for its gross errors and omissions and misleading judgments: the author needs to thoroughly revise the work.

Shariq Nisar

(Source: *Review of Islamic Economics*, Leicester, UK, No. 13, 2003, pp. 79-83)

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