



Non- Conventional Banking and its Money

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ABSTRACT

This paper is going to investigate one of the most controversial issues in non-conventional banking which is money in Islam. This study will touch the early practices of Islamic banking and for this purpose we will refer to preliminary Islamic banking model, examples of personal banking model and examples of Islamic business financing model. We will touch the economic strategy which came to change Islamic money to currency and what is the reason behind it. For this purpose, we will refer to the early legalization of interest, the process of starting using currency or money instead of gold and examples of new economic strategy model. The main focus of this study is to compare the two dissimilar kinds of money to see what is beneficial for banking industry without harming or exploiting its customers whom should be treated fairly.

KEYWORDS : Nonconventional Banking, Money in Islam, Riba, Usury

Introduction:

The most famous definition of nonconventional banks is: nonconventional banking institutions or Islamic banking institutions which have been set up based on Islamic Sharia law, which is in consonance with the spirit, ethos and value system of Islam and governed by the principles laid down by Islamic Sharia. Interest free banking is a narrow concept denoting a number of banking instruments or operations which avoid interest. Islamic banking, the more general term, is based not only to avoid interest-based transactions prohibited in Islamic Sharia but also to avoid unethical and un-social practices. And in this depressed world financial scenario, non-conventional banking has emerged as a strong alternate financial system. It has recorded a phenomenon growth within a short period of time. Now Islamic financial industry has reached \$3.4 trillion US dollar and is growing about 15 to 20 percent annually. Its growth is not restricted to the Muslim societies but Islamic financial products are also gaining popularity among non-Muslim countries. Many global banks have also opened separate windows to serve their Muslim clients. Similarly, about all global agencies like IMF, World Bank, IFC, ADBP, etc, have set up special cell to investigate into this new phenomenon. It is known that global conventional banks like HSBS, Standard Chartered Bank, Deutsche Bank, Citibank, etc, have also set up separate Windows/Divisions to structure Islamic financial products and are offering Islamic banking services to their Muslim clients and even to those non-Muslim clients who are interested in profit and loss sharing (PLS) financial instruments. UK, France, China, Singapore and many other countries have developed special regulatory to facilitate the working of Islamic banking. But there are many controversial issues which cause public controversies within Islamic banks which have their own Sharia board and one of the most reasons which cause that is there is no common definition to what is money in Islam. Therefore, we need to find a common definition for money in Islam in order to solve many controversial issues. This is on one hand and on the other one that will help us to know what is the economic strategy which is being used today and how do they start using currency or money instead of that real money in order to change this real money to which they achieve to reap of people.

THE RATIONAL OF STUDY

The nonconventional banks still do not have standard board for all those Islamic rules which are used in these banks, which means that there is no standard Sharia board for all banks which are working in Islamic banking industry. There are many banks that each one of them has its own Sharia board since they still do not agree with each other on all kinds of money which must be involved and dealt with as an Islamic money law. This issue is even confusing their customers. So, this paper attempts to investigate the issue of money trying to make it clear and to erase any misconception about it. On the other hand, we will try in this paper to touch the interest based transactions which is only operating on money, so we need to know what kind of money we are dealing with in this paper.

MONEY IN ISLAM

The main and major sources for Islamic sharia (Islamic teachings) are the holy book of Islam which is Holy Quran and the authentic Hadeeth; authentic speech which has been recorded from the prophet Mohammed (PBUH) which is Sunna Shareefa.

1.1 MONEY IN THE QURAN

Quran is the pure words of Allah which have been revealed by God to the prophet Mohammed through God's angle whose name is Gebiel, it is the holy book of Moslems, and it forms the major source for all Islamic teachings.

In Al-Emran Sura, we find that Gold dinar has been used as money as has been mentioned in this verse and the Quran has been talking about the double standards that the people of Scripture applied after changing the words of Allah

"And amongst the people of scripture there are those who if you entrust with a Qantar (which is a treasure, it is about 1200 ounces of gold), they will be ready to pay it back, and amongst them those who if you entrust him with one dinar (which is a single silver coin) they won't repay it unless you constantly stand demanding it." Al-Emran, Verse No.(75)

That is because of double standards, they believe that they have code of morality amongst them and they do not have to apply that code of morality with other people, but they tell a lie against Allah and they know that they had changed the words of Allah, and in this verse we found that Qantar was mentioned which is equal to one thousand two hundred ounces of gold.

In this verse when the Quran was talking about the people of Israel regarding the double standards world, dinar was mentioned and world dinar refers to a gold coin and no one challenge about it. In Yousef Sura, verse no:20 "they sold him with a very measly of dirhams" which means they sold him with a very measly silver coins, in this verse we found that Dirham was mentioned which means silver coin.

A careful reading of above verses of the Quran will let us know that the Quran has mentioned Dinar which means Gold coin and Dirham which means silver coin. So, in Quran the precious metals are mentioned, dinar and dirham; (Gold and Silver) in the financial dealings.

1.2 MONEY IN THE SUNNAH

Sunnah is all the authentic Hadeeth (the authentic speeches of the prophet Mohammed (PBUH) which has been recorded by the companions of Prophet Mohammed regarding Islamic teachings during the whole his life.

The prophet said (PBUH) [he gave a command when a transaction is such that involves and exchanges of gold for gold or silver for silver or wheat for wheat or barley for barley or dates for dates or salt for salt it must be equal for equal, you can't have an unequal exchange,

otherwise it would be usury].

Why it would be Usury ,to answer this question we need to study this authentic Hadeeth very carefully to know what money in Sunnah is.

In this hadeeth gold, silver, wheat, barley, dates, and salt have been mentioned by the prophet, but that does not mean that these commodities are the only ones which we apply in our dealings. However, we have to be vigilant to imagine what it could be like, and see what is common to all of them. So we can apply the rules on any commodity which is common to all precious metals.

What is common to all six materials mentioned in the Hadeeth, is that if we look to all these six materials, we find out that they were all used as money. Gold and silver coins were in scarce supply in the market of Madinah since they used dates as money. Therefore, this hadeeth gives us a definition of money in the Sunnah. Money was either precious metal (gold and silver) or commodity as a food consumption which were in a bounden supply in the market. These materials have a shelf life, so you would not use mango as money because your money will be racking. We find with these six materials that the value of money was inside the money, the money has intrinsic value, what was common to all six materials is that the value of the money despite fluctuations based on demand and supply. The value was always value created by Allah. Because dates were used as money, if we allowed an unequal exchange of dates then money can be lent on interest. We can lend one kilogram of dates then it will be returned 2 kilograms after one year, so the door will be opened for the money lender to allow an unequal exchange of money

From that we get the definition of money in the Sunnah "Money is either precious metals (gold and silver) or commodities of food consumption in a bounden supply with a shelf life."

Now from the above discussion we come to the conclusion that Money in Islam is as the following:

So money in Islam is a precious metal (gold and silver for example) and in a shortage of these precious metals we can use commodities of food consumption in a bounden supply with a shelf life.

We see that the aforementioned six materials are functioned successfully as money:

This money is functioned as a medium of exchange for buying and selling except when you use commodities as money it will only be micro transaction (temporary micro transaction), that is one cannot buy a house with wheat.

To be a major of value :long as mankind use real money it will function successfully as a major of value, So money in Islam functions successfully not only as a medium of exchange but also as a major of value. For example, the black African woman in her own country incidentally who has to work as domestic servant who used to be met. When she works for a whole month she will get a wage that is adjust wage on the bases of the major of the value of her labour

To store its value: Quran in Al Kahf Sura [And as for the wall, it belongs to tow orphan boys in the town and under that wall there was a treasure belongs to them, and there father was a righteous man. And God intended that they should attain their age of full strength and take out their treasure as a mercy from God.] ALkahf Verse No.(82). when that man dug a whole and buried his money in that whole. Then he built a wall because he was terminally ill. He had little children so when children grew up they could get their money Despite being fluctuation based on demand and supply the value of that money is still the value which has been created by Allah. If one left behind a 100 gold coins and that 100 gold coins could buy a 100 bikes then he would want that this money 20 years later would have stored its value and could still buy a hundred bikes in case of demand and supply is constant. So the money in the Quran and in the Sunnah perform this function successfully of being stored its value.

1.3 THE EARLY PRACTICES OF ISLAMIC BANKING

The tiny Muslim state was emerged from the city of Medina and was transformed into the big empire of the world due to introduction of

pro-poor, equitable and welfare-oriented financial system. The next four to six centuries saw a continuous expansion of Muslim empire and high living standard of its citizens. The Muslim's love for trade is expressed by Goitein (1967: 55) in these words: "Merchants, craftsmen, and scholars alike would be combine journeys undertaken in their personal interests with pilgrimages to holy places. The Muslim pilgrimage, of course, far outstripped in importance those of the other two religions. In the first place, pilgrimage was one of the main religious duties of a Muslim, whereas in Christianity and Judaism it was only a meritorious deed. Secondly, from its very inception, the pilgrimage to Mecca was connected with the great transcontinental trade and remained so throughout the Middle Ages. The standing wish for a Muslim pilgrim was: "May your Hajj be accepted, your sin be forgiven and your merchandise not remain unsold."

1. PRELIMINARY NONCONVENTIONAL BANKING MODEL

The people who have savings or valuable articles were used to keep them under the custody of trusted persons who were known for their trustworthiness and having capability to discharge their obligations promptly whenever demanded. The underlying objective was to keep small savings in the shape of deposits with trusted persons for safe-keeping and not for earning profit. This was the early shape of deposit-taking which is one of the functions of modern banking. Similarly, the wealthy people supplied funds to honest and experienced traders to finance their trade ventures and earn profit. The traders used to purchase commodities from the areas where they were abundant and sold where they were scarce and whatever the profit they earned they are taking their own part and handing over to the owner of capital his own part of profit after cutting workers fee, travelling expenses and any other expenses. This was the early model of financing which is the core business of modern banking. This kind of financing is known in Islamic financial literature as "Modharba transaction"

1.5 EXAMPLES OF PERSONAL BANKING MODEL

Now we mention practical examples from the history of Islam to illustrate early Islamic banking model.

1.5.1 The people of Makka used to deposit their money and valuables with the Holy Prophet (PBUH) because he was the most honest and commonly known as Amin (trustworthy) even before the declaration of his prophet-hood. These deposits and valuables remained under his custody until his emigration from Makka to Medina. Before, his departure, the Holy Prophet handed over these deposits and valuables to his cousin and son-in-law, Hazrat Ali for their onward return to their owners.

1.5.2 Naqvi (1993:4) states that the safe-keeping of the money was also a common practice in the Arab world. People having savings deposited money with trusted persons and got back in the same form when needed. Zubain Bin Al-Awam, who was a companion of the Holy prophet, enjoyed the reputation of trustworthiness. He was most trusted person regarding safe-keeping of money and had security infrastructure of safekeeping. His practice of receiving deposit was novel and completely different from other people. He received money as a loan but not as deposit. His preference of taking money as loan and not deposit was that he wanted to secure the right of disposing of the money, considering it a loan and not deposit in order to ensure or guarantee for repayment to the owner as the money remaining idle in the form of deposit might be a loss to the owner. But when the deposit is converted into loan it is secured as it becomes the liability of the borrower. At his death total money due from him was amounted to 2,200,000 Dirham, a large sum according to the value of that time. His son, Abdullah Bin Zubair, paid the whole debt of his father and then distributed his father's asset among his family members.

1.6 EXAMPLES OF NONCONVENTIONAL BUSINESS FINANCING MODEL

1.6.1 As mentioned above that the family of the Holy Prophet, Muhammad (MPUH) was prominent in business circle of Makkah, His father, Abdullah, was also a leading business figure. But he was died when he was returning from a business trip of Syria at 25 years of age. In the young age. The grandfather of the Holy Prophet, Abdu Almutlib, was also a leading businessman of Makka but he was also died when the child was at 8. His uncle, Abu Talib, brought him up and oftenly accompanied him in his business tours. His honest business practice popularized him as a man of high integrity. Khadija bint

Khuwailid, a wealthy and noble widow of Macca hired his services for his business. He made handsome profits for her. She was very much happy and impressed by the honesty and dedication of the Holy Prophet and later was married to the Holy Prophet when he was at the age of 25 while she was at 40 in 595 A.D. This example illustrates the fact that an entrepreneur can avail financing from a wealthy woman for his business venture and form partnership with her.

1.6.2 The companion of prophet Uthman Bin Affan, who later became Khalifa, was a wealthy and generous person. He generously supported the Muslims after embracing Islam and provided financial help to everyone. He also lent money to Yaqub; a Jewish merchant of Medina, to carry on business with his money during the period of the companion Umar Bin. ALKhattab, Second Muslim Khalifa. (Imamuddin, (1991:178).

These two examples highlight the mode of financing in early period in which one person supplied funds and other used his entrepreneurial skill and charge fee for his expertise including business expenses. The funds were supplied on the basis of good character, sincerity, expertise and honesty of the entrepreneur. No collateral was involved and no personal guarantee was sought before supplying funds for business ventures.

Finally One of the prophet companions said I would prefer to commit any other sin than having Riba. This Riba which means reaping of or usury is strictly prohibited in Islam it is the most prohibited sin in Islam.

2. THE NEW ECONOMIC STRATEGY

When new economic strategy came to the life it started to establish Riba and That has been forbidden by all religions. It is the practice of lending money to people and making them pay interest. Which always involves no risk and making money from the money itself which raises up the unemployment and let a few people taking advantage of others. We found out that all religions had strictly prohibited Riba because allowing money to be lent in interest will let rich to remain permanently rich and keep on growing richer and poor will be imprisoned in permanent poverty and growing constantly poorer and this comes against God's will, as God wants fair and justice to all mankind.

2.1. THE EARLY LEGALIZATION OF INTEREST BASED LOAN

In 1545 and despite prohibition of charging interest by the church, the British King Henry III through his order allowed the Jews to charge maximum 43% interest on loans per annum. The fixation of interest rate ceiling was aimed at cooling down the sentiment of the public, on one hand, and permitting the Jews to charge 43 percent interest rates on loans, on the other hand. The enactment of this law, in fact, was an attempt to legalize the charging of interest, which was prohibited by the Church since long. The law was passed under the influence of the Jews who were the major beneficiary because 43 percent interest rate was too much. To get approved this law the Jews bribed the English parliamentarians because it paved the way for institutionalization of interest and was a first step towards formal introduction of interest-based banking system.

The formal permission interest charging created favorable environment and prompted other communities to rush into this money-making field. The English jewelers took advantages of new business opportunity and started money lending on interest. They offered low rate of interest as compared to Jews and Lombardians. After legalization of interest, the Jews founded commercial banks on the pattern of joint stock companies and hid themselves behind the veil of banks by institutionalizing interest that saved them from the wrath of people who always revolted against them for charging high rate of interest in about all European countries.

2.2 THE PROCESS OF STARTING USING CURRENCY OR MONEY INSTEAD OF GOLD

The process begins by printing only that amount of paper (paper money) which can be redeemed for the gold that you have, they say keep your gold with us and we give you receipt, and so when you got a hundred ounces of gold they issue a hundred receipts and people use the receipts now like a cheque to exchange with one another knowing that anybody can go to the gold made on cash to check so

the paper currency functioned as the cheque that you can cash, the only problem with gold is they began to create wealth out of nothing. instead of issuing 100 receipts for 100 ounces they issued 200 receipts, instead of issuing a hundred cheques for the hundred ounces of gold, they issued two hundred cheques for hundred ounces of gold, they begun to create wealth out of nothing. nobody knows about it at that time as it was secret, when people got to know that the bank has issued more paper than it has of gold they became scared and they rush to get back their gold but found that the bank does not have enough gold. So, some people were left with only worthless paper in their hands. What are they trying to do is to remove silver and gold coins from the market to reap of the people and establish Reba (usury). Today everybody know about it, today they call it fractional reserve banking.

2.3 EXAMPLES OF THE NEW ECONOMY STRATEGY

2.3.1 U.S FEDERAL RESERVE BANK

While British ruling state transfers the power to the second ruling state which is US, the US dollar was redeemable in gold at 20 USD for one ounce of gold. In 1926/27 Federal Reserve Bank was created and suddenly the US government did something strange at the behest of Federal Reserve Bank. In April 1931 US government declared the use of gold coins to be illegal. In other words they demonetize gold, gold is no longer tandem. If you hand it over to the government you get 20D to each gold coin. But if anyone is caught with gold after certain date and still did not hand it over to the government; to the Federal Reserve Bank, they will be jailed for six months and 10000 USD as a fine, so the Americans rush to give their gold to uncle Sam and to take the paper as 20D on an ounce. Those were the sensible ones, the ones who know that this scramble was coming around; they did not give Uncle Sam their gold. They changed all the paper they have for gold, then they chipped the gold to chips outside of uncle Sam's reach, because they knew that the process was going to coming. This is why today, we see all around US, people buy gold because they know it is coming.

In January of 1934 the US government at the behest of Federal Reserve demonetizes gold, it cancels that legislation. Anyone can now come back and get back your gold from Uncle Sam, but the value of the paper was changed. Uncle Sam's paper was 20USD to one ounce of gold and uncle Sam decided from this date on to be 35. By telling this story we can understand what Quran said about it (And O my people Give full measure and weight in justice and do not reduce the things that are due to the people and do not commit mischief in the earth causing corruption) Hood, Verse No. (85). They rush to buy back their gold from Uncle Sam, and paid him 35USD on an ounce. After Americans had bought back their gold, Uncle Sam was left with 41% of the wealth of the country in his pocket, by the simple experience of devaluing the money, by the simple experience of devaluing the paper, the American government ripped of the American people to the joy of 41 percent of their wealth. So Richard Milhous Nixon announced Sunday from Camp David (we gave our world, but we don't have to keep it) and tore up that notes. He repudiated a treaty obligation, and the very foundation of international law, on the basis of which we can have an ordered well is [Latin, Pacta Sunt Servanda] it is one of the main rules in International law, which means promises must be kept, the treaty obligations must be honoured, *Almayedeh Surah* begins with the same statement, at the very beginning of, *Almayedeh Surah*, [O you who believe fulfill your obligations.] when you give your world you must keep your world, and if you cannot then seek forgiveness from Allah, give charity, free slave, fast, make Tubeh (repent) for it]. So, since September of 1971 no paper money in the world is redeemable in gold on the basis of law, it is just paper of money.

In 1973, when war took place between Israel and Arabs, the USD had collapsed to 160 from 35 and by 1980 when the soviet union invaded Afghanistan the USD collapsed to 850 to one ounce of gold, what happened was, when the value of money falls, people are reaped off, it is a massive transfer of wealth from the unsuspecting masses to that predatory aleck, this is the biggest reap off that mankind have ever had the misfortune to experience from that time Adam (PBUH) set foot on earth.

2.3.2 NIGERIA'S DEBT EXAMPLE

The president Obasanjo of Nigeria said on interest loan is "All that we had borrowed up to 1985 or 1986 was \$5 billion and we have paid

\$16billion yet we are still being told that we owe about \$28billion. This \$28billion came out because of the injustice foreign creditors' interest rates. If one asks "what the worst thing in the world is, I will say it is interest based loan." It seems unbelievable but sadly it is typical, developing countries start off with relatively small loans and remain saddled with a huge amount of growing debt for generations and remember this to be Nigeria or any other for country. How did borrowing just 5billion\$ end up and having to pay \$44billion in total. It must be in very high interest rate to get \$44billion in such a short period of time. But If you open over spread sheet trying to find out how \$5billion could become \$44 billion between 1985 and 2000. You will find that the truth was different it was just 15.6%. Now in face of it around 15% does not sound exorbitant, it does not seem unfair and technically it is not deep illegal according to International law.

2.3.3 INDONESIA'S DEBT EXAMPLE:

Just to mention the cause for what happened to Indonesia's economy, during the years leading up to the 1997 Asian collapse: Indonesia's foreign debt was over 60% of its Gross domestic product 'GDP' because of interest based loan which this country was involved in.

CONCLUSION:

There are two main themes to be mentioned here from the above discussion, the first one is getting common definition to money in Islam. This will help the most of bankers who are working in Islamic banking to avoid using different kinds of definitions when they come to define money in Islam or money in nonconventional banks. This step must be followed by many steps to clarify all issues which cause discussion and disagreement within Islamic banks itself. The second one is that the economic strategy which has been practised from that time when currency or money started to be used instead of precious metals (gold and silver); was there for removing these precious metals from the market and replace it by this money which is no longer redeemable with gold in order to reaping people and controlling the economy all around the world.

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