ISLAMIC BANKING
AND TAKAFUL

LBA 3013

Content

■ Theories of Islamic Economic
■ Overview of Modern financial management of banking, capital market, insurance, securities.
■ History of Islamic banking. The establishment of Islamic banks worldwide both in the muslim and non-muslim countries.
Economic System

- Capitalist
- Socialist
- Islamic Economic

Theories of Islamic Economic

- Temporary Scholars: Mahmud El-Nagar, Nejatullah Siddiqi, Umar Chapra, Khurshid Ahmad and others.
- Al-Quran laid down basic principles of economy.
**Fundamental of Islamic Economic**

- Allah is the absolute ownership
- Sources-Quran and Sunnah, Qiyas and Ijma’
- Vicegerent and Trusteeship
- Islam esteems wealth and wealthy
- Social Mutual Solidarity- Brotherhood
- The Prohibition of usury
- Ummatic(broad) ownership of natural resources

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**Nature of the Islamic Economic System**

Umar Chapra:

Islamic system is dedicated to human brotherhood accompanied by social and economic justice and equitable distribution of income and to individual freedom within the context of social welfare. This dedication is it must be stressed spiritually oriented and finely interwoven into the whole fabric of its social economic framework.
Banking System

- Monetary Institutions- BNM, Commercial Banks.
- Non-monetary Institutions- Finance Co, Merchant Banks and Discount Houses.
Non Bank Financial Intermediaries

- Development Financial Institutions- Bank Pembangunan, BKR
- Saving Institution- National Saving Banks and Credit Cooperative
- Provident and Pension Fund-EPF, Pension Trust Funds, LTAT.
- Insurance Companies- Conventional and Islamic
- Other Financial Intermediaries- MBSB, Leasing Co. LTH.

Financial Markets

- Money and Foreign Exchange- Market for securities less than 12 months to maturity. Eg- banker’s acceptance, negotiable instruments.
- Capital Market- Primary and secondary securities market. SC.
- Commodity Futures market and financial futures market and options market- COMMEX, MDEX.
Islamic Banking World Wide

- First Bank 1587- Banco Della Pizza, Realto Venice Italy
- 1640- Bank of England
- Islamic Bank 1963- Mit Ghamr Local Saving Bank

Middle East

- IDB-1975 Saudi Arabia.
- Dubai Islamic Bank- 1975 UAE
- 1978 Jordan Islamic Bank
- Bahrain Islamic Investment Company 1981
- Qatar Islamic Bank 1983
Asia

- Pakistan- 1977-Report on elimination of interest- 1979-House Building Finance Corporation, National Inv. Corp of Pakistan. Until 1985- Whole system was riba-free. 1991- COA declared Islamic banking operation was not Islamic and confirmed by the Supreme Court 1999. Then, Pakistan followed Malaysia’s model.
- AlBaraka Kazakhstan Bank
- Ningxia Islamic International Trust and Investment
- Al Ameen Islamic and Financial Inv Corp India Ltd. 1985
- Iran-Law of Usury Free Banking 1983- It takes about 6 years from 1979 Islamic Revolution to Islamise the whole banking system of Iran.

Africa

- Nasser Social Bank 1972
- Faisal Islamic Bank of Egypt- 1975
- Faisal Islamic Bank of Sudan 1977- about 9 IFIs.
- Bait Ettamouli Saudi Tounsi Tunisia 1984
- Albaraka Bank Ltd, Durban (Dallah Al Baraka Group)
Europe

- 1978- Islamic Banking System International Holdings, Luxemburg.
- Union Bank of Switzerland 1990- Offer Islamic Investment fund.
- BADR Bank Russia.
- AL-Baraka Turkish Finance House 1985- 99% Muslim- 1928 Secularism by Atartuk.- About 7 IFIs.
- Islamic Bank International Denmark 1983

North America

- Islamic Co-operative Housing Corporation Ltd, Toronto
- Ameen Housing Co-operative, San Francisco
- HSBC, USA
South East Asia

- Bank Muamalat Indonesia 1992. Recently, 3 IB.
- Alirajni Commercial Establishment for Exchange, Bangkok 1985. Islamic Bank of Thailand-

Australia

- Muslim Community Cooperative Australia 1989.
<table>
<thead>
<tr>
<th>Category</th>
<th>Country</th>
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<td>1. Islamic Banking System</td>
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<td>2. Dual system</td>
<td>Malaysia, Pakistan, Indonesia, Singapore, Thailand, Arab Saudi, Bahrain, Bangladesh, Brunei, Mesir, Guinea, Indonesia, Jordan, Kuwait, Niger, Qatar, Senegal, Tunisia, Turki dan Emiriah Arab Bersatu</td>
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<td>3. Conventional System only</td>
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**Related Institution**

- International Islamic Finance Market - Dubai 2002
- Islamic Financial Services Board IFSB 2002 - KL.
Evolution

- Rasulullah SAW received deposit from public.
- Az Zubair Awam- received deposit as loan.
- Concept wadiah, loan and mudharabah.
- Umaiyah, Abasiyah and Uthmaniah
- Zuhr al-islam- Saif Dawala al Hamdani has already used cheque (Suftajah) in certain transaction. Safarnama by Naser Khasro 427m- Active transaction using cheque.

Modern Islamic Banking

- Mit Ghamr Local Saving Bank- Saving account, loan, equity financing and welfare services.
- Its operation has been taken by National Bank of Egypt in 1967 and riba-free transaction was neglected. 1971- National Social Bank.
- OIC- King Faisal. 1975 Dubai Islamic Bank and IDB.
- 1977 Faisal Islamic Bank of Egypt, Faisal Islamic Bank of Sudan and KFH.
Modern Islamic Banking

1. 1st Phase- 1950s. Concept and Idea
2. 2nd Phase- 1960s- Early Islamic Bank
3. 3rd Phase- 1970s- Establishment of academic institution and banking institution. Publication of text materials on IB.
4. 4th Phase- 1980s- Development of Islamic Bank- Window and Full-fledge
5. 5th Phase- 1990s- Development of Islamic Bank in USA market- Dow Jones Islamic Index was launched.
6. 6th Phase- 2000s- Maturity, comprehensive architecture, IFSB and etc.

Malaysia

1. 1980- Bumiputra Economic Congress- To establish IB.
4. 1993- Islamic Banking Scheme- 1 IB and 20 windows.
5. 1994- International Islamic Money Market.
6. 1997- NSAC at BNM
7. 1999- BMMB
8. 2007- 12 IB 9 local and 3 foreign players.
9. 2001-2010- Islamic Financial Sector Master Plan- 20%
## Islamic Financial Institutions

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<tr>
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<th>Islamic Bank</th>
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## IFIs Branches

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Tutorial

- Presentation to brief banks’ profile.
- Name, Logo, Board of Directors, SAC, Capital, Products, Address and further particulars.
- Each group is allocated 7 minutes.

Next Lesson

- Salient features of Islamic banking
- An overview of the jurisdiction of the courts in cases pertaining to Islamic banking and finance.
- Salient features of various statutes governing Islamic banking and finance.
- Theory of the classifications of transactions in Islamic commercial law