



AL-MAQALAH

Islamic banking products

Islamic banking and finance industry in Malaysia has undergone rapid transformation in recent years. It has grown to become one of the competitive industries and become one of the drivers of economic growth and progress. Malaysia has emerged as a country that has the most comprehensive Islamic finance in the world, supported by all the components required by a financial system of Islamic banking, *takaful* and Islamic money market and equity, based on its own legal system governed by Bank Negara Malaysia (BNM).

Rapid growth of the Islamic financial sector is also reflected by the enthusiasm and commitment showed by the international financial centers are dominated by non-Muslim communities such as London, Paris, Hong Kong, Singapore and Japan to develop the Islamic financial sector in their countries. Thus, this is the time and opportunity for Islamic countries such as Malaysia to strengthen Islamic finance structures and products and bring them to the world as a preferred method of the global economic recovery.

In Malaysia, we have a number of product that has been developed to suit customers' needs according to business segments for instance, savings and current account, consumer banking, business banking, trade finance, investment, treasury and capital market.

Islamic banking and finance offers multiple Islamic contracts for deposit and financing products in line with Shariah requirements. Some of these concepts are based on the concept of sale or exchange, concept of profit sharing, savings, trust and guarantee concepts allowed by Islamic law.

Below are the samples and summary of Shariah contracts applicable in the industry based on segment/ stream and it purposes:

Segment/ Stream	Purpose	Shariah Contract
Islamic Deposit 	Savings account	Wadi'ah yad Dhamanah, Qardh
	Current Account	Wadi'ah yad Dhamanah, Qardh
	Term Deposit	Tawarruq
Islamic Investment	General/ Specific Investment	Wakalah bi al-Istithmar, Mudharabah
Consumer Banking 	House Financing/ Property Financing/ Shophouse Financing	Bai' Bithaman Ajil, Tawarruq, Istisna', Musharakah Mutanaqisah
	Auto Financing	Bai' Bithaman Ajil, al-Ijarah Thumma al-Bai'
	Personal Financing	Tawarruq
Business Banking 	Working Capital Financing	Murabahah, Tawarruq
	House Financing/ Property Financing/ Shophouse Financing	Bai' Bithaman Ajil, Istisna', Tawarruq, Musharakah Mutanaqisah
	Commercial Auto Financing/ Machinery	al-Ijarah Thumma al-Bai' , Ijarah
	Trade Financing	Bai' Dayn, Murabahah, Wakalah, Kafalah
Treasury & Capital market	Foreign Exchange	Bai' Sarf, wa'd
Investment Banking	Capital market	Bai' Bithaman Ajil, Murabahah, Ijarah, Musharakah



How is Shariah contract for product development in Islamic banking?

- The products that has been developed in Islamic banking using Shariah contracts will definitely give benefit to customers in many ways.
- Application of Shariah contract is to advocate concepts of compassion between Islamic bank and customers and guidance to establish justice, eliminate prejudice, and alleviate hardship in customer.
- Other than that, application of Shariah contract is also to promote the harmonization of Islamic finance market practices in Malaysia and ensuring it is comply with Shariah status to avoid costly errors that might lead to litigations and lost of competitiveness in the Islamic financing business.



Dubai Islamic Bank (DIB) created history in 1975 when it became the first modern commercial Islamic bank in the world.



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Major differences between Islamic and Conventional products:

The major difference between Islamic Banking products and Conventional Banking products is Islamic Banks must strictly adhere to Islamic laws in which must be based on four basic principles. The principles are:

1. All transactions must be interest (riba) free;

The al-Quran explicitly prohibits riba but does permit trade (al-Baqarah: 185). The term riba includes any amount charged over and above the principal. The payment of interest or receiving of interest, which is the fundamental principle of conventional banking and financing, is explicitly prohibited in Islamic banking and finance. Thus, the prohibition of interest, in payment or receipt, is the nucleus of Islamic banking and its financial instruments, while the charging of interest in all modes of transaction whether it is in loan, advances or leasing is the core in the conventional banking.



2. Activities or transactions involving speculation (gharar) must be avoided;

Gharar is speculation or uncertainty is forbidden in Islam. Islam allows risk-taking in business transactions, but it prohibits speculative activity. Any transaction involving the element of



speculation like buying shares at a low price and selling them at a higher price in the future is considered illegal. Conventional banks, on the other hand, have no constraint in financing investment involving speculation.

3. The implementation of zakat;



Zakat is a compulsory religious payment on the wealth of the rich payable to the poor. It is a built-in mechanism in Islam for

ensuring the redistribution of wealth and the protection of a fair standard of living for the poor. Islamic Banks pay Zakat and Conventional Banks do not. The interest-based conventional banks, on the other hand, are subjected to only corporate business tax.

4. No involvement in the production or consumption of goods and services which are haram (illegal from the Islamic point of view).

In Islam, investment in production and consumption is guided by strict ethical codes. Muslims are not permitted to invest in production, distribution and consumption enterprises involved in alcohol, pork, gambling, illegal drugs, etc., even though these enterprises may be profitable. Providing financing for such activities is illegal in Islam. Hence, it is forbidden for an Islamic bank to finance activities or items that are not permitted by the Shariah. On the other hand, Conventional Banks do not have any restricted investment as long as it gives profit to the bank.

