The role of Islamic banks in the life of Muslim communities is increasingly active as more and more institutions are being established from village banks to major international development banks. There have been a number of conventional banks that have adapted Islamic banking principles. Islamic banks are pragmatists, who are very much interested in the practical and feasible. Of course, there are those who have a more idealistic approach, but they are in a minority. The Islamic banks are pragmatists, who are interested in the practical and feasible.

Pragmatic adjustments

The result has been that these banks and their shariah advisors have opted for a less risky form of Profit and Loss Sharing by modifying traditional contracts, such as mursalah and mushabaka, to suit the banking needs of the late 20th century. This is important, for the bulk of their financing and investment operations, they have opted for safer and less risky contracts such as mursalah and mushabaka, which is very similar in some respects to lending on a basis of pre-determined returns. So successful has this been, that mursalah-type contracts now make up at least 75% of such investment operations of many Islamic banks.

A third pragmatic adjustment is the interpretation of riba. Without question the theocratic position of Islamic banking is that riba is equivalent to ‘coin’ and a more medium of exchange. In the shari’a, money cannot be sold for money, that is more for less, and it should not have a ‘price’. This definition of dilution of the idea that money must first be risked in order to earn a return. In Islamic banking today, there are many examples of risk-minimization: muroaba profit, short-term commercial mursalah and mudaraba profit, and yen or the less secure form of Profit and Loss Sharing by mushabaka (partnership) and mudaraba (commenda).

Approaches to Islamic banking

Three approaches to Islamic banking may be identified and placed on a continuum: idealist, pragmatic and mulsafa-oriented. The idealist approach seeks to retain the ‘purity’ of Islamic banking by restricting it to contracts allowed under Islamic law. This was the 1950s and 1960s model. At the opposite end of the continuum are the Islamic scholars who argue that interest is not inherently evil and that the term riba does not include modern bank interest. This approach is the most liberal, indeed, it even makes a case for there being no need for separate Islamic banks at all. Provided they adopt ethical principles, conventional banks, in their view, can provide financial services. Between these two extremes lies the pragmatic approach, which is realistic enough to see that the idealist model of Islamic banking has significant problems in terms of practicality and practicality, but, at the same time, does maintain the interpretative position of Islamic banking. The minority realists are pragmatic bankers, who are prepared to balance practicalities with traditional Islamic principles.

Economics

ABDULLAH SAEED

Islamic Banking

Moving Towards a Pragmatic Approach?

Islamic banking has developed from its early experiments of the 1960s into a major force in the Islamic world, with assets of more than 100 billion dollars, and is still growing. Today it is not difficult to find an Islamic bank or an Islamic branch of a conventional bank in many Islamic countries. Responding to these needs of their clients, some major Western international banks have set up their own Islamic branches as well. Even in Australia, the relatively small Muslim community has managed to set up its own financial institutions. This is equally true for a number of other Western countries such as the USA.

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