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WHY IT IS NECESSARY TO HAVE AN ISLAMIC FINANCIAL SYSTEM

by

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We already have a very excellent and efficient financial system in the country. We have the whole system in place that has supported various complex needs of the country. We have developed it with utmost care and vigour that it is well-poised to meet the future needs as well. We are in fact trying to make Kuala Lumpur the hub of an excellent financial system in the region. Why then do we need an Islamic alternative to the system?

Many would think that the Muslims are not permitted by their religion to indulge in *riba* or usurious activities. Since our financial system is based on interest, the Muslims cannot freely participate in it. This is definitely true, especially when the Muslim jurists in the country and almost all elsewhere consider the prevailing system unacceptable to the *Shariah*, the Islamic law. The only alternative available would be to avoid having anything to do with interest.

The question is, would there be any viable alternative? Of course, since the establishment of the Islamic bank in the country, all modes of financing conducted by the bank have been successfully done without interest. The Islamic bank has gradually expanded and even been listed on the Kuala Lumpur Stock Exchange.

There are now at least 46 commercial banks and finance companies that have already offered the interest free banking services, since the introduction of the Interest Free Banking Scheme by Bank Negara Malaysia in 1993.

With the participation of these banks and finance companies, the inter-bank clearances and other facilities have also been made possible although to a limited extent for the moment, which otherwise would leave the Islamic Bank to operate alone with a lot of limitations.

In fact, a number of financial institutions have been converted to operate along Islamic lines through take-overs, including a discount and leasing houses. Financial

futures have also been started and operated along Islamic lines.

Two Islamic insurance or *takaful* companies have also been established to date. The first is a wholly-owned subsidiary of the Islamic bank and has already been listed on the Kuala Lumpur Stock Exchange after about a decade of operation. The second is a subsidiary of Malaysian National Insurance (MNI) which was established only about a couple of years ago. Even the second *takaful* company is already making some profit during its second year of operation.

A number of applications for new *takaful* licences have been received by the government. These go to show the growing interest in this business as well. However, we are yet to establish a reinsurance company, the Islamic way, to complete the system.

A number of loans have also been raised through Islamic mode of syndication. We have arrangers from among financial institutions that have offered Islamic financial services as well as conventional ones. Among the huge loans include the last two tranches for Kuala Lumpur International Airport as well as the first private Islamic bonds raised for Kentucky Fried Chicken. In other words, the financing needs are growing not only in terms of size of funds required but even in terms of varieties.

The government has also repeatedly announced its intention of making Kuala Lumpur as an excellent Islamic financial hub. This commitment by the government is definitely a strong encouragement to the financial sector, especially those who understand the need for a viable Islamic alternative to the existing financial system.

It is not wrong for us to cash in at the tremendous opportunities available. It is also not wrong to be innovative and join the bandwagon. However, it is also necessary to appreciate why the need exists all the time. For those who are able should actually strive to serve the Muslim community in the right way. After all, in this venture, they are accountable to God in everything that they do. They cannot simply innovate something new and call it *halal* or Islamic just like what sometimes happens to the various types of foodstuffs which are being sold in the market.

The Quran treats *riba* in a very special circumstance. It is not only associated with the material and ephemeral wealth that can increase or decrease through the receiving or paying of interest. This is very mundane indeed in the sight of God. As such God reveals that, in His sight, giving interest does not increase other people's

wealth but charity does manifold (Quran 30: 39).

In this context the verse clearly brings out the question of social justice and ethics in the conduct of financial transactions. The practise of interest entails the existence of greed and the devouring of other people's property in a wrongful and unjust way. It is also considered as the extreme opposite of charity which signifies unselfishness, striving and the giving away what we have in the cause of God rather than taking away from someone.

It is only in the second revelation (Quran 4: 161) that God clearly forbids the taking of interest and the wrongful appropriation of other people's property. It could also be interpreted as outright devouring of one another's wealth which is clearly prohibited.

The third revelation (Quran 3: 130-2) reinforces the prohibition by specifically mentioning the doubling and redoubling of interest. This does not mean that interest can be considered as sinful only when the amount is burdensome, as some people choose to understand.

However, it is the fourth revelation (Quran 2: 275-81) that is the longest and has clearly sealed all doors towards interest. Those who benefit from it will only stand like those who have been driven to madness by the touch of the Devil because they liken trade with interest while God has permitted trade and forbidden interest. This is indeed a strong admonition because the right to determine what is right and permitted and what is wrong and prohibited is God's alone. Man has no such right. If one does so, he is considered to assume that right that belongs only to God.

Those who desist may have what they have taken in the past. In that case, they have to put their full trust in God. However, for the future, they have the right to only the principle amount. Not a single cent or penny could be taken. Those who do not repent, they are at war with God and His Messenger.

The seriousness of interest is compared here with waging war with God and His Messenger. There is no other known sin that God has declared war against the sinner. This seriousness is being reinforced by the Holy Prophet when he was reported to have said, "A dirham of *riba* which a man receives knowingly is worse than committing adultery thirty-six times" (*Mishkat al-Masabih*). In another tradition, the Holy Prophet said, "*Riba* has seventy segments, the least serious being equivalent to a man committing adultery with his own mother" (*Ibn Majah*).

It is definitely unthinkable for a pious Muslim who knows the seriousness of this sinful act in the sight of God to indulge himself knowingly and continuously in it. I heard of a Beduin in Saudi Arabia who was promised some profit by a bank if he puts his reasonably large cash savings in the bank under a *mudharabah* (profit sharing) account. At the end of the year when he found out that the bank credited a huge amount into his account, he went up to the bank to inquire the kind of business the bank had undertaken on his behalf that has generated so much profit. When the bank manager told him it was actually interest income, he took out all his cash without interest saying, "I do not intend to destroy the good that I have in my money with whatever amount of interest you are giving me".

This man, like many others, clearly understands that it is not worth accumulating wealth whose source is not in accordance with the *shariah*. It only contaminates all the lawful wealth that we have acquired. After all we shall still have to account for every cent that we acquire and spend.

Those who are knowledgeable and understand the exact situation and who provides the right means of Islamic financial transactions would be doing a great service not only to the Muslims but more so to themselves. *God knows best.*

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