

Basic Understanding of Islamic Banking, Finance and Capital

India is one of the fastest growing economies in the world today and is on the path to becoming one of the largest in the world in the coming decades. Our Banking sector had undergone tremendous changes throughout these years by fulfilling the dreams of thousands of people. Banks have provided a lot of opportunities for the public not only as mediators but also as service providers.

In the recent past, interest in the Islamic Finance has been increasingly focused on Islamic Financial Institutions, which have progressed rapidly in a global economic environment. Despite considerable research and progress, there still remains some confusion about the underlying concepts of Islamic Finance and its functionality.

Interestingly, India is the only major economy in the world which still lags far behind in providing the infrastructure needed for proper development and promotion of shariah compliant banking and finance. Reserve Bank of India (RBI) Governor Dr. D. Subbarao has recently stated that the RBI has written to the Government of India to allow Islamic Banking in the country (Times of India, 04-10-2012).

This articles will help in understanding the basic concepts of Islamic banking, finance and capital market.

Shariah

Shariah literally means a way or path. In Islam shariah refers to the divine guidance and laws given by the Holy Quran, the Hadith (Sayings) of the prophent Muhammed (pbuh) and supplemented by the juristic interpretation by Islamic scholars. Shariah embodies all respect of the Islamic faith, including beliefs and practices.

Shariah contains command and prohibition in five broad categories:

S.No.	Actions	Performance	Non Performance
1	Obligatory (Fard)	Rewarded	Punished
2	Recommendatory (Mustahab)	Rewarded	Not Punished
3	Permissible (Mubah)	No Reward	No Punishment
4	Reprehensible (Makruh)	Not Punished	Rewarded
5	Prohibited (Haram)	Punished	Rewarded

Sources of Shariah

<u>PRIMARY</u>	<u>SECONDARY</u>
Holy Quran Sunnah	Ijma Ijtehad Qiyas

Islamic Business Ethics

Ethics is a set of moral principles which distinguish right from wrong. Business ethics is the branch of ethics which deals with principles of ethical rules to be applied in commercial transactions. According to Islamic beliefs, life is not restricted to the present one only; there is another life after one's death in which one has to give full account of what he did in this world.

Zakah

Zakah literal is to grow and purify. Payment of Zakah is religious duty in Islam and considered as a right of the poor in the wealth of the rich. It is one of the five most important pillars of Islam. It helps in redistribution of wealth from rich to the poor.

Generally Zakah is payable @ 2.5% of the wealth with certain terms and conditions.

The important prohibition laid down by the shariah are as follows:

- Riba (Interest)
- Gharar (Ambiguity)
- Maysir (Gambling)

Islamic Equity Market

In Islamic capital market, the market activities are governed by the principles of shariah. The Islamic capital market is based on the following main principles:

- Free from any practice of Riba (Interest), Gharar and Mysir
- Sharing of risk and rewards
- Free from wide spread speculation and unethical practices
- Ensuring faithful compliance of contracts and dealing only in lawful activities or items

The main instruments of Islamic capital market are Equity Shares and Sukuk (Islamic Bonds)

Equity Shares :

- These are closer to Islamic norms of profit & loss sharing.
- Free from uncertainty
- Viable non interest based investment

Investment in these equity shares are allowed with certain terms & conditions

Sukuk (Islamic Bonds) :

It represents ownership of an asset. It is an investment certificate conferring ownership claims over a pool of assets.

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