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THE FIQH MAXIM AL-GHUNM BI AL-GHURM: A CRITIQUE ON INTERPRETATION OF THE MAXIM RELATING TO THE RISK-RETURN CONCEPT IN ISLAMIC BANKING AND FINANCE

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Abstract

Purpose — This paper aims to critically review the interpretation of the fiqh maxim al-ghunm bi al-ghurm, which, while being associated with the risk-return concept, is widely adopted in the Islamic banking and finance industry. Tracing back to the doctrinal sources of Sharī'ah (Islamic law), the review intends to examine the actual meaning of the maxim based on its original context and Sharī'ah evidences. **Design/Methodology/Approach** — This paper inclines to the doctrinal methodology specified for Islamic law whereby the observations, documents and records are comparatively reviewed to establish a critical evaluation. A number of doctrinal sources have been gathered to analyse the Sharī'ah essence of the subject matter; the two types of materials referred to are mainly classical Arabic dictionaries and the books of hadith along with the commentaries on them. **Findings** — The review demonstrates a discrepancy concerning the adaptation of the maxim in Islamic banking and finance in relation to the risk-return concept. Though both principles of ghumn (gain) and ghurm (liability) have similarities in risk-return precepts, there are also differences between them in terms of interpretation and application. The context of the hadiths which are the Sharī'ah basis of the maxim is a specific scenario in relation to asset-based transactions, whereas the risk-return concept is quite generic for the risk measurement system and is commonly used in financial management and investment. **Originality/Value** — The paper identifies the apparent gap in the current theories to assist researchers in examining this area of research. **Research Limitations/Implications** — While it is generally believed that Islamic financial services should be based on risk-sharing modes, such as mushārah and muḍārabah, as alternatives to interest-bearing services, discussion on risk-sharing modes from the Sharī'ah perspective is not widely substantiated in contemporary academic literature. While this may limit the range of available research references, it does not compromise the validity of the findings of this study. © Nasrun Mohamad Ghazali, Mohd. Fuad Md. Sawari, Bouhedda Ghalia, and Syed Musa Syed Jaafar Alhabshi.

Author Keywords

Al-ghunm bi al-ghurm; Fiqh maxim; Islamic finance; Risk return

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