ISLAMIC BANKING & FINANCE

PRINCIPLES, INSTRUMENTS & OPERATIONS

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CHAPTER 11

ISLAMIC BANKING BUSINESS IN MALAYSIA: THE REGULATORY ASPECTS

by Adnan Trakic* & Ashgar Ali Ali Mohamed**

11.1 Introduction

Banking is an important financial and social institution which has contributed significantly to the development and the growth of the modern industrial society. Banking business involves inter alia, deposit facilities that are repayable on demand with interest, investment deposits, working capital credit facilities, leasing and project financing current. Banks borrow money by accepting funds deposited on current accounts, by accepting term deposits, and by issuing debt securities such as banknotes and bonds. Banks lend money by making advances to customers on current accounts, by making instalment loan, and by investing in marketable debt securities and other forms of money lending. It must be noted however, that the conventional banking and financial system revolves on an impermissible transaction in Islam namely, that it is based on riba (interest). Islam strictly forbids Muslims from taking or giving interest regardless of the purpose for which such loans are made and regardless of the rates at which interest is charged.

The prohibition of riba is mentioned in four different sections in the Qur'an. The first verse emphasises that interest deprives wealth from God's blessings. The second condemns placing interest with wrongful

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1 See 'Bank' at http://en.wikipedia.org/wiki/Banking_business

2 'That which ye lay out for increase through the property of (other) people, will have no increase with Allah: but that which ye give for charity, seeking the Countenance of Allah (will increase): it is these who will get a recompense multiplied': (30: 39).