Prohibited elements in Islamic financial transactions: A comprehensive review

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Abstract

This paper analyzes prohibited elements in Islamic financial transactions from a Shariah perspective, since it is obligatory on the individual (al-Farada’i) to understand the Islamic law of transactions (Fiqh muamalah). Islam is not only a religion, but also a complete way of life. Islam has clearly forbidden all business transactions that lead to exploitation and injustice. In any firm or any of the parties of a contract, Islam requires that all financial and business transactions be based on transparency, accuracy, and disclosure of all material information so that no one party takes advantage of other parties. There is wisdom (Fiqh) behind every prohibited transaction and in order to practice business and banking activities that are genuinely Shariah-compliant, it is important to understand the prohibited elements in Islamic law. Accordingly, prohibited elements such as riba, gharar, qarar, mujar, fraud and coercion are discussed, as well as the importance of the legality of the subject matter. Sahih, Hadith contracts and oaths are covered in respect to different schools of thought.

Author keywords

Bai‘al, Fard, Muamalah, Gharar, Qarar, Riba, Islamic Finance, Akidah, Mujar, Sahih