A TOPIC FROM THE MIDDLE EAST: ISLAMIC BANKING

The Concept of Money in Islam

Money Is all His almighty God (Allah), it is given to mankind by His will. Man is entrusted with the money and should use it in what is beneficial to mankind. Money is a means not a target, in all what money means: gold, silver, metals, real estate, water, etc. This concept is more crystallized in one of the Islamic Five Pillars Zakat by which Moslems are required to pay a fixed proportion of their possessions, 2.5% of total net worth. The purpose is social solidarity and development where money is spent for all people’s benefits.

References from the Holy Koran:

Al-Baqara 188 verse: “ and eat not up your property among yourselves in vanity, nor seek by it to gain the hearing of the judges that ye may knowingly devour a portion of the property of other wrongfully.”

Al-Nisa’ 29 verse: “O ye who believe! squander not your wealth among yourselves in vanity, except it be a trade by mutual consent, and kill not one another . Lo! Allah (God) is ever merciful unto you.”

ISLAMIC BANKING

Islamic banks are based on the same concept. Money, according to Islamic banks, does not generate money by itself (deposits and interests) if not associated with work / efforts/ beneficial business. Money generated by placing money as deposits (interests) are not favored and called “Riba” which is not allowed. Instead, Islamic Banks follow Islamic laws “Shareia “ by providing alternatives for investment of money beneficially i.e.:
- Morabaha
- Mudharaba

These are the main concepts in Islamic Banking. Modharaba: According to Modharaba, which means ‘ sharing of profit and loss,” customers participate with the bank in various Islamic investment products by placing their money but without a pre-defined interest rate. Profits (or losses) are shared /distributed usually annually.
Morabaha: This is a loan program by which customers can buy things or purchase any item with the help of the Islamic bank financing the purchase against Morabaha which is an additional amount over the principal as a profit. Customers would pay back to the bank in installments the principal plus the agreed Morabaha profit.

There are other alternative banking products such as the following:
- Mosharka (participating), which is equivalent to a joint venture.
- Leasing
- Islamic Bonds
- Istisna’ which is equivalent to project finance

**Islamic Banking and Traditional Banking**

Islamic banks are different from traditional banks in the following:
1- Do not deal with pre-determined interest rate (rather agreed profit).
2- Work according to Shareia laws (Koran).
3- Must have Shareia committee.
4- Not allowed to participate in alcohol or cigarette businesses, casinos, prostitution or any other business not acceptable by Shareia.
5- Cannot charge interest to late or overdue installments.
6- Provide free loans for a long (relaxed) period for certain cases, e.g. Marriage loans.

However, Islamic banks are just like other banks and financial institutions in the following:

1- Subject to the same banking and financial institutions laws and regulations.
2- Subject to Tax law and to depository lines laid by the central banks (just like other banks).
3- Provide all conventional banking products such as guarantees, letters of credit, wire transfers, etc.
4- Integrated with other banks consortium services such as: ATM services, SWIFT, clearing system, etc.
ISLAMIC BANKS AND MONEY LAUNDERING

According to what has been mentioned above, Islamic Banks are not (practically) very much different from traditional banks in regard to money laundering. Thus, Islamic Banks are vulnerable to money laundering just like other banks and financial institutions. The following factors add more vulnerability to money laundering in Islamic banks:

A- Dealing with customers who are more cash-based.
B- Lack of electronic banking products.
C- Charity business.

Islamic Banks, therefore, need to implement Anti-Money Laundering measures (policies and procedures) and to adopt relevant systems to avoid risks of Money Laundering.