Ethical identity of islamic banks in society

Sociology, Identity

When the idea of Islamic banking with its ethics was first introduced, the financial pundits of the world sarcastically called it a dream which would never be able to become a reality. Due to the saturation of the capitalist valueless economic system in their lives over centuries, they asserted that ethics have to do nothing withfinance. There has been massive growth in the financial sector through out the world in the last century and ethics involved in the capitalist economic system has been in a state of flux.

It is pertinent to mention here, as a result of this massive growth in financial sector it has become part and parcel of day to day life. In the light of the above mentioned reasons it's started provoking the conscience of an increasing number of people. The people were reluctant to carry on business with banks and financial institutions which are engaged in business with companies having unethical activities which are detrimental to the common interest of the society.

It has been seen a massive support and acceptance generally in a Muslim society. Today, Islamic banking is booming to a US$ 200 billion deposits. It does not exist only in Muslim countries but are spread all around the world. Islamic banking enjoys a continuous growth because of its enriched values which enables it to attract finances from both Muslims and non Muslims similarly. There are more than 250 Islamic financial institutions operating in the following courtiers:

Saudi Arabia, Pakistan, Bahrain, Bangladesh, Egypt, Kuwait, Albania, Turkey, Algeria, Brunei, Lebanon, Morocco, Tunisia, United Arab Emirates (Abu Dhabi, Dubai, Sharja), Palestine, Mauritania, Sudan, Australia, Bahamas, , British

Virgin Islands, Canada, Cayman Islands, North Cyprus, Djibouti, France, Gambia, Germany, Guinea, India, Indonesia, Iran, Iraq, Italy, Ivory Coast, Jordan, Kazakhstan, Luxembourg, Malaysia, The Netherlands, Niger, Nigeria, Oman, Philippines, Qatar, Russia, , Senegal, South Africa, Sri Lanka, Switzerland, Trinidad ; Tobago, United Kingdom, United States, Yemen (Institute of Islamic Bank ; Insurance 2008).

Islamic banking received substantial attention following the Islamic resurgence in the 1970s and the increasing concern regarding the relationship between religion and economic activities among Muslims. Though Islamic finance may be a niche market in the West, elsewhere it is widespread and growing. The General Council of Islamic Banks and Financial Institutions estimated that in 2005, the industry pned 38 countries, with nearly 300 entities managing about $200 billion. In Iran and Sudan, finance is almost entirely Islamic.

Other countries, like the Gulf States, Pakistan, Malaysia and Indonesia, operate under more mixed systems in which Islamic and conventional finance compete - a reflection of the multiple constraints that Muslim states confront, hemmed in by their colonial legacies, budgetary needs, and religious jurisprudence (International Herald Tribune 2008). The people not conversant with the principles of Shari'ah and its economicphilosophysometimes believe that abolishing interest from the banks and financial institutions would make them charitable, rather than commercial, concerns which offer financial services without a return.

Obviously, this is totally a wrong assumption. According to Shari'ah, interest free loans are meant for co-operative and charitable activities, and not normally for commercial transactions, except in a very limited range. So far as commercial financing is concerned, the Islamic Shari'ah has a different set-up for that purpose. The principle is that the person extendingmoneyto another person must decide whether he wishes to help the opposite party or he wants to share in his profits.

If he wants to help the borrower, he must rescind from any claim to any additional amount. His principle will be secured and guaranteed, but no return over and above the principle amount is legitimate. But if he is advancing money to share profits earned by the other party, he can claim a stipulated proportion of profit actually earned by him, and must share his loss also, if he suffers a loss. Conventional Banking The modern conventional banking has promoted various attractive products by giving them a form which appears most desirable.

Its major achievement, however, is that a think like interest which is highly abominable and ghastly, has been presented in the attractive disguise of banking, in such a way that reasonably educated and intelligent people also started to consider it harmless. The benefits ant virtues of this worst phenomenon of the modern conventional banking have awed the minds and thinking of the people in such a manner that they are not willing to listen anything against it. They consider it harmless, beneficial, legitimate and something indispensable.

If one were to come out of this shall and rid oneself of the blind followers, then anyone who can think straight would, without fail reach the conclusion that no other factor, but the present system of banking, is responsible for the creation of economic imbalance which adversely affects the lives of the common man. The fact is that the old system of usurious lending was not as harmful as is the modern system of banking. To begin with, a few capitalist form a banking company, generally known as a bank. They join hands for undertaking banking business.

In the beginning the business is financed through own capital so as to establish the bank. The proportion of the capital to the entire resources of the bank is very small. Bulk of the resources of the bank comprises deposit made by the public and businesses. In reality, these resources are very important for the development and progress of the bank. The higher the deposits available to a bank, the stronger it is considered. Even though depositors' resources are the life line of the bank, but these people have no say in the policy of the bank.

Issues like how should the resources be employed, what should be the rate of interest, who should run the bank are all decided by the capitalist who are the major shareholders or owner of the bank. All that the depositors are required to do is deposit their money with the bank and continue to receive interest at nominal rates. Even though there are several shareholders in a bank but the policy matters are in the hands of majority shareholders. As far as the small shareholders are concerned, their relationship with the bank is generally confined to receipt of profit, if and when it is distributed.