

**PRINCIPLES OF
ISLAMIC FINANCE**

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

**In the Name of God, Most
Compassionate, Most
Merciful**

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Principles of Islamic finance

⋮
The Islamic Shari'ah is:

Comprehensive

Moral

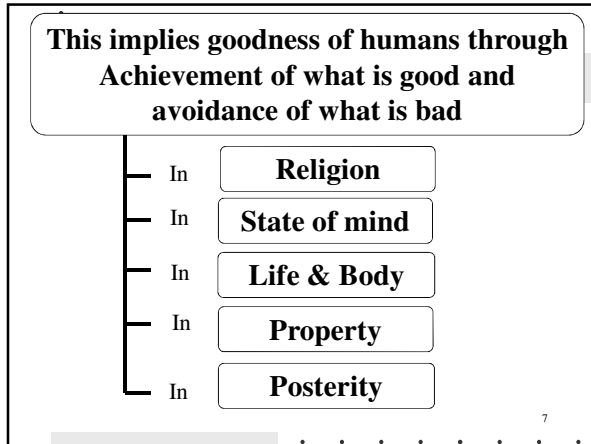
and

The Last and Final Heavenly Law

5

⋮
**The General Objective
of Shari'ah**

**Preservation of human order
and
Continuation/improvement
of its goodness,
individually and in groups**



Let us go to the market. . .

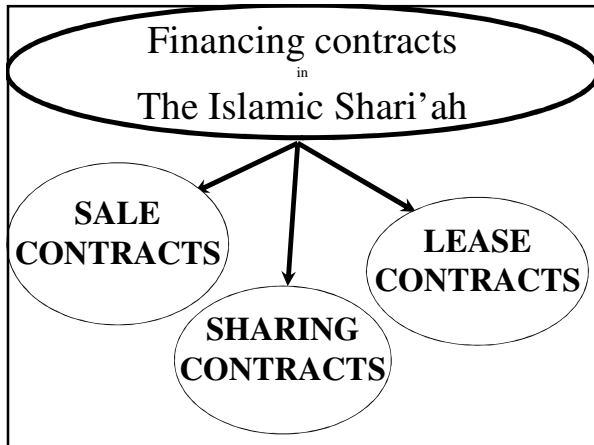
- **Business as usual**
 - Is trading fictitious things a “Business as usual”?
 - Is attributing growth to things that do not grow, by their very nature a “Business as usual”?
 - Is transferring wealth on assumed or deemed ground a “Business as usual”?

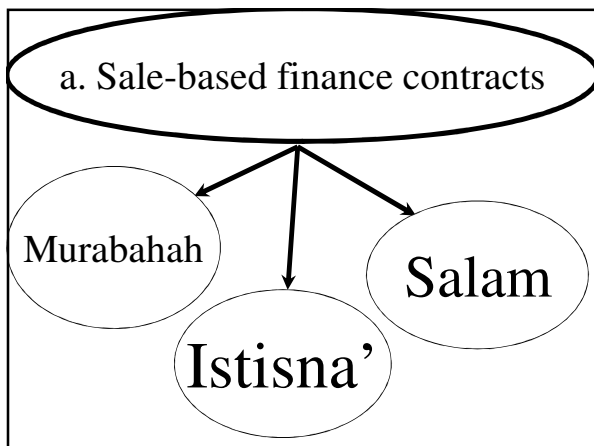
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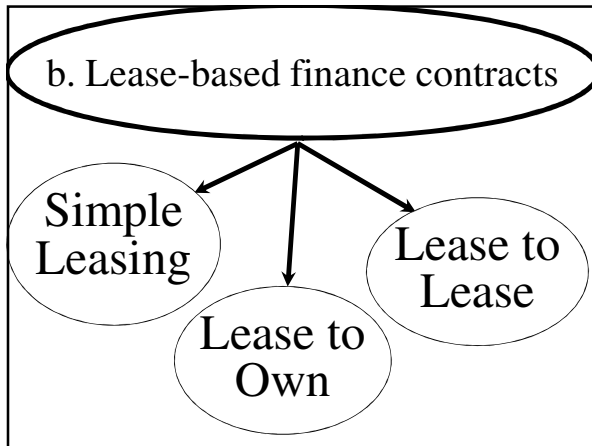
- Is increasing the production and exchange of harmful products , through finance, a “Business as usual.?”
- Is every activity that some people decide to undertake okay or is it a “Business as usual”?
- Is every activity that some law somewhere permits is necessarily moral or a “Business as usual”?

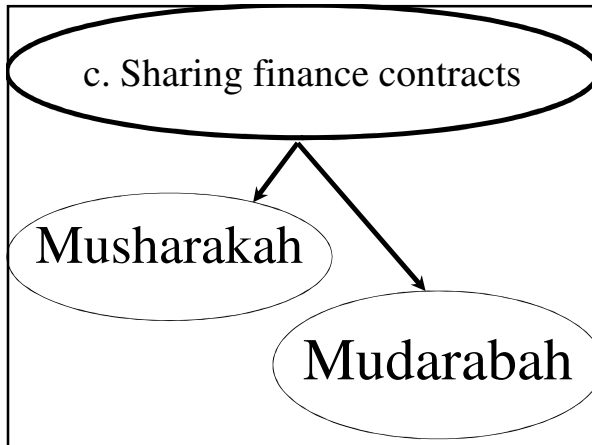
What is Business as usual in finance?

- Credit in sale: financing through sale
- Use of property with little payment: Leasing
- Committing funds to businesses: Sharing









Characteristics of the Shari'ah-compatible Financing Contracts

1. Financier earns by virtue of ownership:

- In Sharing: ownership continues
- In Sale/Ijarah: first own, then sell/lease

2. Fairness and balance

- In sharing: methodology of profit/loss distribution
- In sale/Ijarah: No Ghabn, no Gharar, etc.

Characteristics of the Shari'ah-compatible Financing Contracts

3. Social and contractual justice:

- Required social contributions of owners
- Prohibition of Interest while permitting sharing

4. Moral commitment:

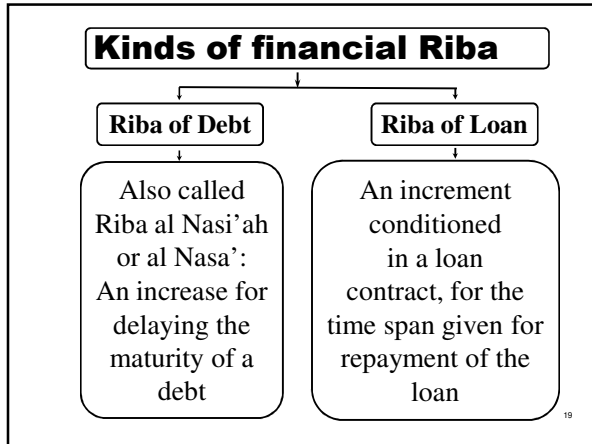
- God only prohibits what is bad (a rule of expandable application)
- What Shari'ah prohibits is bad: interest

Prohibition of Riba

**in the Qur'an
and the Sunnah**

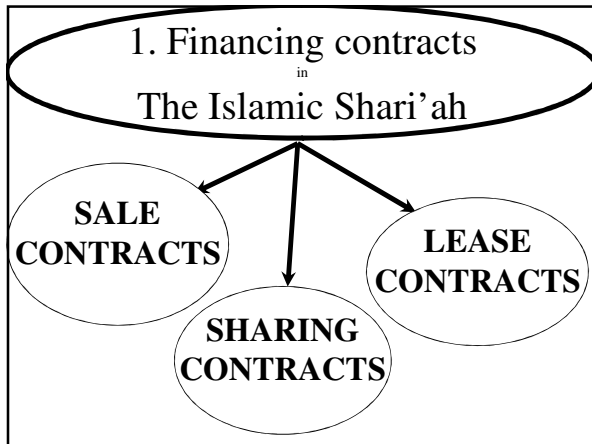
Definition of Riba
in finance:

In Shari'ah, A conditioned increment (with no counterpart) in a loan or a debt.



- Implications for our lives**
- * **We'll discuss:**
1. INVESTMENT IN STOCKS,
 2. INVESTMENT IN COMMODITIES
 3. CURRENCY TRADING: FOREX
 4. FINANCING: BUSINESS, HOUSING & CONSUMERS
 5. CREDIT CARDS
 6. INSURANCE: CAR, LIFE, HAZARDS

**3
BASIC
PILLARS**



2. Justifying Return in Islamic Finance

Necessary condition:

- Ownership (asset)

Sufficient conditions:

- Growable/Growing
- Morality screen
- Actual increment

3. NATURE OF SECURITIES IN ISLAMIC FINANCE

Basic Principle:
A security is only a Veil

What matters is:
What a security stands for

1 - INVESTMENT IN STOCKS

Principles of Shari'ah

- ✓ Interest
- ✓ Short sale
- ✓ Prohibited products
- ✓ Prohibited practices
- ✓ Speculation, day trading
- ✓ Speculative contracts

2 - INVESTMENT IN COMMODITIES

Principles OF Shari'ah

- ✓ Leveraging
- ✓ Short sale
- ✓ Contracts not intended for execution
- ✓ Trading indices and CFD
- ✓ Speculation

3 - TRADING CURRENCIES, OPTIONS AND DERIVATIVES

Principles of Shari'ah

- ✓ Riba al Fadl
- ✓ Speculation in currencies
- ✓ Value-creating asset

4 - FINANCING: BUSINESS, HOUSING & CONSUMERS

1. Islamic Financing Alternatives:

▶ **Financing contracts:**

- 1. Murabahah
- 2. Contracting (Istisna')
- 3. Leasing
- 4. Equity (venture capital)

4 - FINANCING: BUSINESS, HOUSING & CONSUMERS Continue

▶ **Financing institutions:**

- 1. Islamic companies and coops
- 2. Conventional Institutions

4 - FINANCING: BUSINESS, HOUSING & CONSUMERS continue

2. Cases of necessities/needs
(General needs/necessities & lack of alternatives)

- Personal financing
 - i. Residences
 - ii. Personal cars
 - iii. Personal durables
- Business financing

6 - INSURANCE: CAR, LIFE, HAZARDS, ETC.

- 1. What is insurance?
Pooling resources & distributing risk
- 2. Need for insurance, historical examples
- 3. Objections to insurance and response:
 - » Riba
 - » Gambling
 - » Ambiguity (Gharar)
- 4. Mutual and commercial insurances

Verses from the Qur'an

- ☪ “That is because they said: sale is just like Riba”
- ☪ “And God made sale permissible and prohibited Riba”
- ☪ “But if you repent, you get your principal so that no injustice is done by you and no injustice is inflicted on you.”

What is intended by the prohibition?

- ☪ Eliminating parasitic finance
- ☪ Eliminating rescheduling with increment
- ☪ Eliminating debt trading, e.g., the bulk of inter-bank transactions
- ☪ Eliminating trading of purely financial assets

شكرا لكم
Thank you
