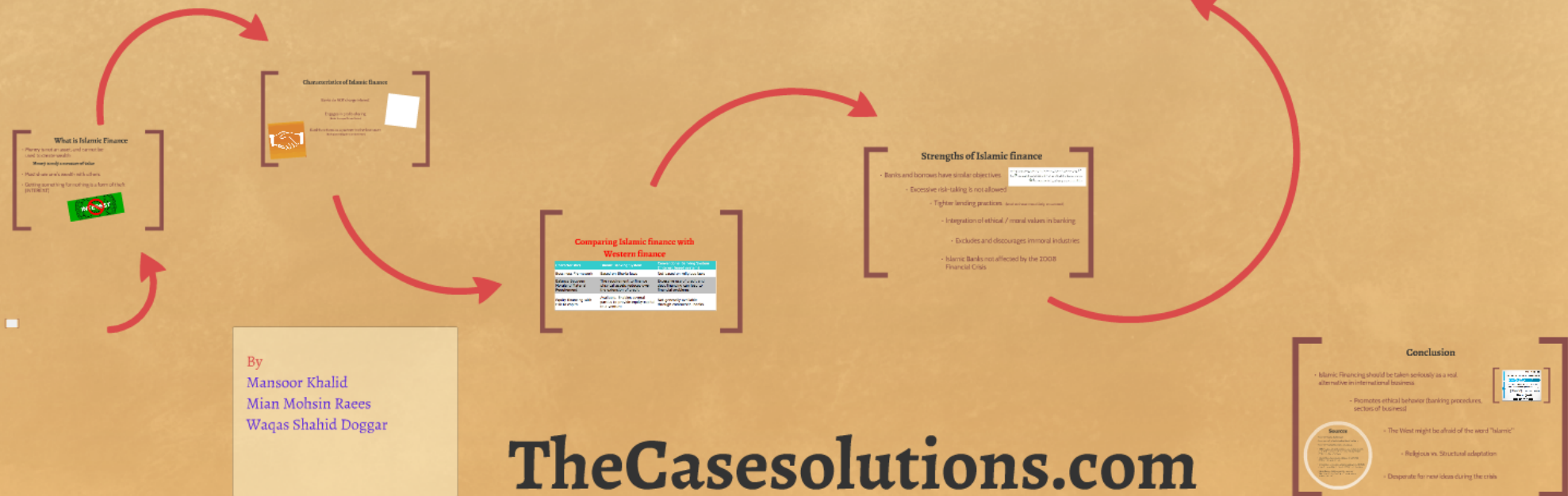


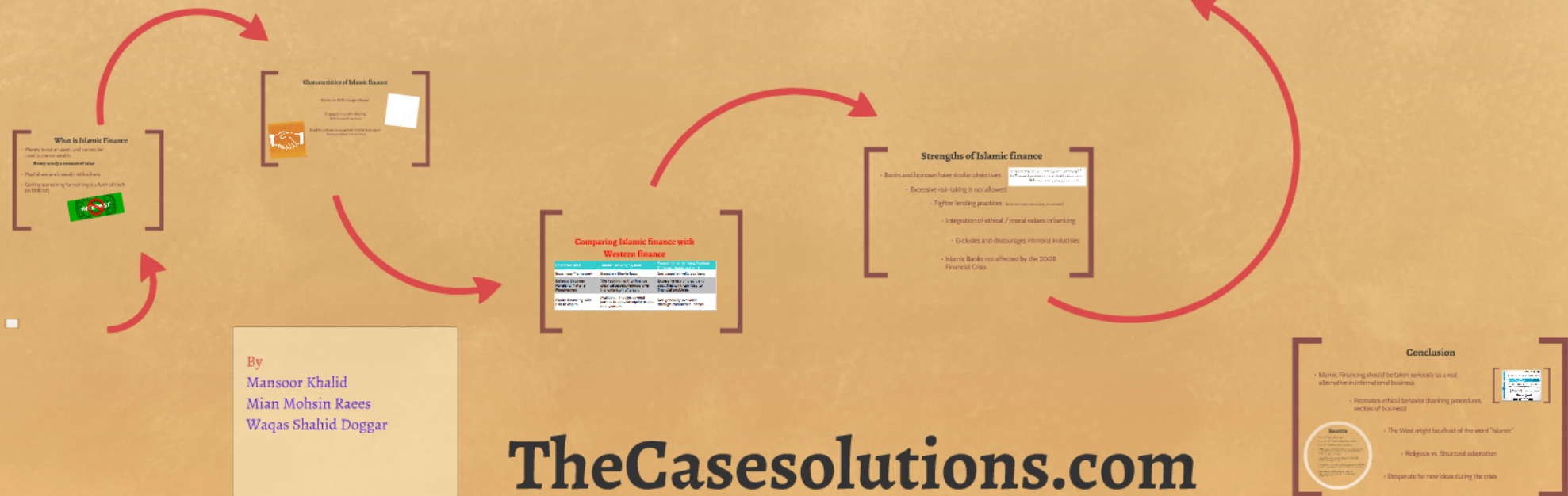
# ISLAMIC FINANCE AND BANKING



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## MEANING

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### **The belief that Allah is the owner of all wealth**

- A core concept of Islam :
  - Allah is the owner of all wealth in the world
  - humans are merely its trustees
  - humans need to manage wealth according to Allah's commands
- Under Sharia Islamic law, making money from money, such as charging interest, is usury and therefore not permitted.
- Wealth should be generated only through legitimate trade and investment in assets. But investment in companies involved with alcohol, gambling, tobacco and pornography is strictly off limits.
- The overarching principle of Islamic finance is that all forms of interest are forbidden.

# What is Islamic Finance

- Money is not an asset, and cannot be used to create wealth

**Money is only a measure of value**

- Must share one's wealth with others
- Getting something for nothing is a form of theft (INTEREST)



# Characteristics of Islamic finance

Banks do NOT charge interest

Engages in profit-sharing  
(Banks share profits and losses)

Bank functions as a partner to the borrower  
(Bank places obligations on borrowers)



# Comparing Islamic finance with Western finance

Characteristics	Islamic Banking System	Conventional Banking System (Interest based system)
Bussiness Framework	Based on Sharia laws	Not based on religious laws
Balance Between Moraland Material Requirement	The requirement to finance phsyical assets reduces over the extension of credit	Excessive use of credit and debt financing can lead to financial problems
Equity financing with risk to capital	Available. Enables several parties to provide equity capital to a venture	Not generally available through commercial banks



## Strengths of Islamic finance

- Banks and borrows have similar objectives
  - Excessive risk-taking is not allowed
  - Tighter lending practices (lend to those most likely to succeed)
  - Integration of ethical / moral values in banking
  - Excludes and discourages immoral industries
  - Islamic Banks not affected by the 2008 Financial Crisis

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