

Islamic Banking: A Study of the Relevant Operating Modes in Current Financial Scenario

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Abstract

Islamic Banking and finance has been an upbeat trend since 1963. It emerged within the sphere of Islamic economics and is guided by *Shari'ah*. The relevant themes of *Quran* and *Ahadith* were explored by Muslim jurists to search the possibilities for legitimate merchandise. *Fiqh al-Ma'amalat* therefore, is the field that resulted in shaping of the Islamic Banking and finance. Till 1975 there were a few Islamic financial institutions especially in Egypt, Gulf States, and Malaysia governed by the Shariah Advisory Boards, but due to wider dimensions of the subject and deliberations of *Islamic Fiqh Academy* in 2nd Summit of OIC in Feb. 1988 at Jeddah, Saudi Arabia, a world-wide coerce of promoting *Riba*-free institutions became a solemn concern in Muslim States. Currently around 315 Islamic Banks are operating in some Muslim as well as Western countries. International Monetary Fund in 2005-09 calculated the growth of Islamic Equity institutions to set new standards for the commercial banking. The present paper attempts to study and highlight its character and relevance of the operating modes in the current financial scenario.

Keywords: - PLS scheme, Equity, *Shariah*, Partnership based contract

1. Introduction

Islamic banking and finance has been a hot debate since 1970's. It has been a decisive field explored by the Muslim scholars in the modern times. As an allied constituent of Islamic economics, the scholars wrote to develop this discipline since 1940. The Quranic term "*Ma'ieshah*" from which comes the word "*Ma'ashiyat*", is the recognized translation of the word "*Economics*" (20:124)¹. The latest concentration towards *Islamic economics* occurred mainly due to altering world order and recession problems that alarmed interest-based financial mechanism around the globe. The Muslim nation states since 1950's had to face immense challenges as well as to set unsullied standards to attain and restore economic stability.² Islamic Finance, therefore, came up to explore and develop the economic aspect of Islam to build and facilitate a mechanism relevant to the exigent financial senerio. The concept being to built a system divinely ordained, governing and enforcing accountability to stakeholders, moral behavior, fairness, equality, promotion of free trade and harnessing of resources through partnership as opposed to debt. The basic aims and objectives include:

1.1 Objectives

- To use the funds of surplus economic units to facilitate investment and asset allocation
- To facilitate trade and the commercial activities
- To provide financial services
- To create investment opportunities.