

ETHICAL DIMENSION OF ISLAMIC BANKING AND THE FINANCIAL MARKETS

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ABSTRACT

Islam as the complete code of life provides every individual complete direction of life. In the modern world Islamic Banking exists in various corners of the world with progressing steam. The ethical performance put forth by Islamic financial institutions lead the result for the economic growth through-out the Islamic economic sectors. Financial market was disturbed due to various emerged financial crisis started from modern conventional banks since the decades. In order to overcome these lost assets world financial experts thought for the establishment of ethical financial institutionalization. The disturbed world financial market was overcome by Islamic banking in the particular areas. The present paper is the analysis of prevailing financial sectors as authenticity of Islamic banking with its ethical memorandum.

Introduction

Four Decades ago, Islamic banks were unknown to the world; they numbered in the hundreds worldwide and hold more than U.S. \$2 trillion in assets now. In the world of global finance, this is not a large amount, but its growth rate is substantial. Furthermore, the concept is discussed heatedly in every financial zone. In light of Islam's rapid development, especially in countries like the United Kingdom, France, Hong Kong, and the United States, Islamic banks will likely play a role in the development and globalization of world financial markets.¹ But more importantly, Islamic banking offers a means of reintroducing ethics into the global financial system.²

This paper will argue that the principles of Islamic banking are fundamentally different from those of traditional commercial banking system. The Islamic financial system derives its rules from religious sources, while the conventional banking system's rules originated in the market.³ At a time when global economic forces are causing great hardship for people around the world, and the harsh demands of the market seems to supersede concern for the well-being of fellow humans, Islamic banking may serve as a means of re-imbuing modern banking with ethical norms.⁴ Within the broader financial system, Islamic finance can play a role in re-establishing a sense of ethics that has been lost and to try to make its concept and products acceptable to ethically minded people

¹ Islamic Banking & Finance at the Crossroads of Global Financial Crisis. The Way Forward", Keynote Address by Dato' Mohd Razif Abdul Kadir, Deputy Governore, Bank Negara Malaysia at the soft launch of the IIUM Institute of Islamic Banking and Finance, 20 March 2009, Kuala Lumpur. For a detailed elaboration on the development of IBF please see Askari, Hossein, Zamir Iqbal and Abbas Mirakhor (2009), *New Issues in Islamic Finance and Economics: Progress and Challenges*, Singapore: John Wiley and Sons, especially Chapter 1

² Josh Martin, "Islamic Banking Raises Interest," *Management Review*, New York American Management Association, November 1997.

³ Mohamed Aslam Haneef, *Islamic Economics, Banking and Finance in the 21st century: Selected Issues in Curriculum/Human Capital Development, Thoughts on Economics*, Vol. 20, No. 01, P.04

⁴ Algaoud, L.M. and Lewis, Mervyn, K. (2001), *'Islamic Banking'*, Edward Elgar Publishing Limited UK.