

Finance, Islamic Fiancé: Theoretical Analysis

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Abstract

The paper discusses the steps to be taken to strengthen the efficiency and transparency of the Board and management. Increasing shareholders and depositors to play a more important role in protecting their own interests. The article then describes some of the popular resources available to enhance the effectiveness and responsibility of the Board and the Executive.

Keywords: Finance, Islamic Finance.

1. Introduction

Islamic finance means that debt creation by direct lending and borrowing from money or other financial assets is not permitted. The debts can only be created by selling or leasing real assets through leasing-based financing (such as murabaha, ijara, and sukuk). The assets rented or sold have to be real (construction, real estate or other physical infrastructure), and the transactions must be genuine (approved by government regulators as well as Shariah board religious experts) with full intent to give and take charge; the associated debt (risk) cannot be sold and transferred to another person.

2. Theoretical Analysis

Financial services that meet the requirements of the Shariah, or Islamic law are called Islamic finance. While designed to meet the specific religious requirements of Muslim customers, Islamic banking is not restricted to Muslims: both the financial services provider and the customer can be non-Muslim, as well as Muslim. Shariah-compliant financing (SCF) constitutes financial practices that conform to Islamic law. Major principles of shariah law that are applicable to finance and that differ from conventional finance are: In conventional forms of finance, a distinction is made between acceptable interest and usurious interest (i.e., excessive rates of interest). In contrast, under Islamic law, any level of interest is considered to be usurious and is prohibited. Some question how lenders can profit from financial transactions under Islamic law. Take for instance, in a real estate setting; SCF takes the form of leasing, as opposed to loans. Instead of borrowing money, the bank obtains the property and leases it to the Shariah-compliant investor, who pays rent instead of interest. Ban on

Uncertainty in contractual terms and conditions is not allowed, unless all of the terms and conditions of the risks are clearly understood by all parties of a financial transaction. This condition may help eliminate most of the speculative transactions which involve gharar (excessive uncertainty). Parties involved in a financial transaction must share both the associated risks and profits. Earnings from profits or returns from assets are permitted, so long as the business risks are shared by the lender and the borrower.

3. Conclusion

This will help ensure that the seller (or lessor) also shares a part of the risks in order to be able to get a share of the returns. Once the seller (financier) acquires ownership and possession of the goods for sale or lease, he/she bears the risks. Investment in industries that are prohibited by the Qur'an, such as alcohol, pornography, gambling, and pork based products, are discouraged. Each financial transaction must be tied to a "tangible, identifiable underlying asset."⁹ The debt cannot be sold, and thus the risk associated with it cannot be transferred to someone else; it must be borne by the creditor himself. According to this condition a transaction must be a genuine trade transaction, and the fact that the creditor cannot transfer the risk to someone else by selling off the debt, will also help eliminate speculative and derivative transactions, as well as prevent the debt from rising far above the size of the real economy

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