DEPARTMENT OF MATHEMATICS

Wednesday, 29th January 2025

Understanding Islamic Finance Principles

A session on "Understanding Islamic Finance Principles" was conducted for Computational Finance (CF) students, focusing on the fundamental rules, instruments, and ethical considerations of Shariah-compliant banking and finance. The discussion revolved around the core principles that differentiate Islamic finance from conventional finance, ensuring compliance with Islamic laws and ethical guidelines.

The session began with an overview of the rules (احکام) of financing in Islam, emphasizing the prohibition of interest (Riba) in all financial dealings. It was highlighted that Islamic banks strictly avoid investments in businesses or transactions that involve Haram (forbidden) activities, such as gambling (Maysir) and excessive uncertainty (Gharar). Any transaction involving significant ambiguity or deceitful elements is considered non-compliant with Islamic financial principles. Additionally, Islamic banking does not charge extra penalties on late payments, ensuring that financial dealings remain ethical and fair.

Students were then introduced to key financing instruments in Islamic banking, starting with Murabaha, a financing technique where the bank purchases an asset and sells it to the customer at a profit, allowing deferred payments. Unlike conventional banking, where interest is charged on loans, Murabaha ensures that the bank first owns the asset before selling it, with the profit amount predetermined and agreed upon. The session also covered Musharaka (شراکت داری), a partnership-based financing model where two parties invest together and share profits based on a pre-agreed ratio. A specific variation, Diminishing Musharaka, was discussed, where ownership of an asset gradually transfers to the customer as they pay installments.

The discussion further explored other Islamic financial concepts such as Takaful (Islamic insurance), which operates on the principle of mutual assistance rather than risk transfer. Ijarah (Leasing) was another important concept, allowing individuals to rent assets with the option to own them at the end of the lease period. The session also touched upon Heela (حيله - بهانه), a controversial practice where different Islamic financing models, such as Ijarah and Musharaka, are combined in ways that could manipulate the rules of Islamic finance. Such practices are considered impermissible as they contradict the spirit of Shariah compliance.

Overall, the session provided valuable insights into how Islamic finance maintains ethical standards while offering viable alternatives to conventional banking. The students gained a deeper understanding of how Islamic banking works, the importance of fairness and risk-sharing, and the challenges involved in ensuring complete compliance with Shariah principles.