

# Shari'ah requirements for acceptable and successful conversion

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## **1- What is wrong with conventional banking:**

The function of banks is financial intermediation. Through this process, banks channel savings into useful uses for investment and consumptive purposes. They provide a mechanism for pooling funds to undertake large scale indivisible enterprise and they provide ways to transfer economic resources, thus assuring maximum utilization of monetary resources. It is obvious that the more financial intermediation we have the better. More intermediation means better utilization of real resources and hence prosperity of the society. Shari'ah is not against this. On the contrary it is safe to say that Shari'ah encourages economic development orders its followers to endower into wealth creation and the use of economic resources for the creation of more welfare for all members of society. Hence, financial intermediation is simply a means to a desired end.

What is objectionable from Shari'ah point of view is when that financial intermediation is delivered through a process of interest based borrowing and lending, as it the case in conventional banking.







motivated". Otherwise, Islamization is only "commercially" motivated. This, as the perception goes, makes "Shari'ah inferior", not worthy of respect, and makes the management of the bank suspect. They will go back to conventional if Islamic doesn't make money.

To me the whole issue is irrelevant. On the one hand, intentions are important for natural persons. Banks are juristic persons. No matter how good or bad the intention of the management they are, at the end of the day, functionaries implementing policies that maximize profit to share holders. On the other, if Islamization is a good thing, it should be so at any level. Therefore, full conversion is better than a mere distribution of an of Islamic investment fund. But they are both O.K.

More importantly, experience shows that for a bank operating in a Muslim society as conversion starts it creates a momentum that stops at nothing but a full conversion. The force of Islamization becomes unstoppable.

b) Progressive Vs "cold turkey" transformation:







determination and resolve of the bank in this conversion project. Does this mean a Shari'ah board is a marketing tool? Not necessarily. But it sure is very helpful.

Some regulators and central bankers were baffled about the nature of the job of Shari'ah boards in Islamic financial institution. They thought Shari'ah scholars, with little or no training in banking, “call the shots” in Islamic banks. Actually, Shari'ah boards have no executive power and they don't interfere in the day to day management of the bank nor take decisions on behalf of the management. They may express their views about the Shari'ah permissibility of a transaction, but they will never comment on the credit or risk aspects of it.

#### **b- Separation of Islamic from non-Islamic.**

Whether they are Islamic or non-Islamic, funds going through the bank accounts can't be distinguished unless they are deliberately separated. No conversion will succeed if doesn't give comfort to bank customers that a Chinese wall has been erected between Islamic and conventional. The prohibition of usury in Islamic is so cardinal that Muslims are required to keep as much distance as possible from even the suspicious of very. Hence separation is prerequisite for success.

This Chinese wall is in the form of management and accounting



