

## EPITOME OF ISLAMIC FINANCE IN WESTERN WORLD

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### **ABSTRACT**

*Islamic finance has emerged as a fastest growing sector in the global financial services industry. Undoubtedly Islamic banks have grown recently in the Muslim world but they constitute a small share of the global banking system. While on the one hand, Islam is the fastest growing conviction in the world, the western human race on the other hand, continues to get wrong in the amity process and continues to hold negative stereotypes and misconceptions about Islam due to the media, prejudice, and ignorance. Since the word Islam is associated with the term Islamic finance, these nations perceive Islamic finance as a community and sectional affair of the Muslim population. In the above backdrop the rationale of this article is to underline the misunderstanding and misinterpretation of Islam in the western world that could hamper the growth of Islamic finance in the global financial markets so as to draw the attention of economists, scholars, academicians, financial experts and scholars to think over the measures that could be adopted to overcome this issue.*

**KEYWORDS:** *Islamic Finance, Western*

### **INTRODUCTION**

Owing to the globalization, liberalization of economies and macroeconomic reforms, the capital movements and the global integration of financial system over the past two decades, there has been a phenomenal growth in global Islamic finance industry. The funds under Islamic financial institutions are growing at an annual rate of 20% annually with the total value over \$200 billion (Zaher and Hassan, 2001). The Islamic banking system is very different from the conventional banking due to the fact that it is controlled by religious law and it forbids profit-making on interest-based mechanisms (used in all Western banking systems), which is considered illegal under Shariah law. As such, Islamic banking is based on a Profit-Loss Sharing henceforth PLS and is currently integrated into over 60 countries with more than 250 Islamic financial institutions across the world, as it provides for “cohesion between social classes because financing is equally available to anyone with a productive idea” (Zaher and Hassan, 2001). Under the PLS, and because Islamic banks are religiously forbidden to pay interest to their investors, banks operate by sharing profits or projects, participating in investments, and earning fees for banking services. The system became irreversibly linked to capital markets across the world and serves as a primary channel for investments and transactions into the oil-rich Middle Eastern regions. The term “Islamic Banking” in a broader sense refers to a system of banking or banking activity that is consistent with Islamic law (Shariah) and guided by Islamic economics. Shari'ah prohibits the payment or acceptance of interest charges (riba) for the lending and accepting of money, as well as carrying out trade and other activities like businesses that sell

alcohol or pork, or businesses that produce media such as gossip columns or pornography, which are considered contrary to its principles. The basic principles of Islamic Banking originate in the axioms of justice and harmony with reality and human nature. Islam views the economic problem in a radically different way than Capitalism and Socialism. In particular, Islamic banking has the same purpose as conventional banking except that it operates in accordance with the rules of shariah, known as Fiqh al-Muamalat (Islamic rules on transactions).

The remainder of this paper is structured as follows: Section 2 describes Western stereotypes about Islam. Section 3 outlines the available literature. Section 4 underlines the concept of usury in ancient Western political philosophy. Section 5 highlights major controversies surrounding Islamic finance. The final section concludes.

## ISLAM AND WESTERN COUNTRIES

Islam is the fastest growing religion in the West. Nevertheless, the West has many stereotypes and misconceptions about Islam that are due to the media, prejudice, and ignorance. Islam is often looked upon as "extremist", "barbaric", or "fundamentalist" religion. Many people oppose Islam and do not want to acknowledge its true teachings. Today, the West, with little or no understanding of Islamic history, has identified a new enemy, "a new demon that has replaced the Red menace of the Cold war, i.e., radical Islam" (Agha 2000). This "radical Islam", a stereotype common to Western thought, portrays Muslims as fundamentalists or potential threat. Some of these ideas that the Western people have about Islam are due to the mass media of the West. Reporters who cover the Muslim world often have very little details. The media then develops a distorted image of Islam that Western culture adopts (Agha 2000). A major factor which contributes to Islamic stereotyping in the West is due to the media's ignorance of selecting their words that could describe the Muslims. Some common names heard or seen in the news about Muslims are "extremist" or "violent". These words are misleading and are mainly anti-Islamic. The media rarely uses more neutral terms such as "revivalist" or "progressives" (Hassan 1995). The association of Islam and violence is a common misconception that the general Western public has developed about Islam. An example of this kind of misconception is that the Western media and some historians often say that Islam was a religion spread by the sword, meaning that Muslims went from one end of the world to the other forcing people to either convert or die. With the Western media's spotlight and some Western governmental attitudes, the West is a place where Islam is a name of negativity. The Western media has contributed a great deal to this negative image of Islam. The media often misrepresents and inaccurately explains Islam and its manifestations. Nowadays, numerous media campaigns are going on against Islam and Muslims. Most Western media with considerable financial resources and multiple channels try to show a rough picture of Islam to their public. At the same time Muslim groups through various media outlets are trying to convey their messages, but in comparison to the global dominance of the western media, their efforts are somehow in vain. Most western media are using the September 11th event to capitalize its political gain. . The negative effect of 9/11 on non-Muslim attitudes towards Islam and the Muslim world is well documented. A 2006 ABC News/Washington Post poll revealed that 46 percent of Americans expressed an unfavourable opinion of Islam, nearly double what it was in early 2002. According to a 2002 You Gov poll in Britain, 66 percent of British respondents listed "TV and newspapers" as their "biggest single source of information about Britain's Muslim Community".

The main miss-conceptions of the west about the muslim world is that of (a) Muslims are violent, and/or extremists. (b) Islam oppresses women. (c) Muslims worship a different God. (d)Islam was spread by the sword and intolerant of other faiths. (e) All Muslim men marry four wives. (f) Muslims are a barbaric (g) Muhammad (PBUH) is the founder of Islam and Muslims worship him. (h) Muslims don't believe in Jesus or any other prophets.

## **LITERATURE REVIEW**

Whether forged reports are televised or printed, it is not astonishing that Western media reports uphold a constant twisted image of Arabs and Muslims. Fabricated stereotypes of Islam are all-pervading in Western media through all means of communication. What is lamentably odd is that Arabs and Muslims are seen as anti-national, barbaric, anti-democratic, etc. To achieve this endeavour the western media deliberately distort many Islamic concepts. Kepel (2002) argues that Islamic groups like the Muslim Brotherhood contributed to the establishment of Islamic banks “that would eventually finance the militant Islamist movement.” He describes the Islamic financial system as linking the tribal aristocracy of the Arabian Peninsula, guardians and beneficiary of the region’s oil endowment, with the pious middle class, resulting in an economic partnership that satisfied the aristocracy’s need for pious legitimacy. Napoleoni (2003) asserts that there is collusion among Islamic banks, legitimate business, and Islamic charities in financing terrorism. She cites the Arab Bank as the financial arm of the Palestinian Liberation Organization (PLO). She focuses on Saudi Arabia’s use of Islamic banking as a means of spreading Wahhabi Islam aristocracy’s need for pious legitimacy. Ehrenfeld (2005) chronicles numerous cases of other, major name, Islamic banks being involved in the financing of Islamic terrorism through these Sharia-compliant financing structures and mechanisms James Hume, executive vice-president of the Dubai International Financial Centre, explains the rapid growth in Islamic banking as a result of the 9/11 attacks and increasing sophistication of the Islamic financial sector. The 9/11 Commission reported that Al-Qaeda’s pre-9/11 funding came from Islamic charities supported by people who were both knowledgeable and ignorant of the funds’ final destination. Giraldo and Trinkunas (2007) documented that the ‘roadmap’ of the ‘New Economy of Terror’ begins with its sources of financing, which encompass both legitimate and illegitimate means, and which can be grouped under various elements including Islamic charitable organisation and sympathetic governments like Saudi and Iran.

However, there are even some findings where the sacred obligation of Zakat (alms) has been unproven as funneled towards radical organizations. Nevertheless, it is safe to say that so far, notwithstanding all the conspiracy theories and long-winded connections raised to link Islamic finance with terrorism, there is hardly evidence sufficiently produced to justify such allegations.

## **USURY IN ANCIENT WESTERN POLITICAL PHILOSOPHY**

Among the Ancient Western philosophers who condemned usury can be named Plato, Aristotle, Cicero, Seneca and Plutarch (Birnie, 1958). Evidence that these sentiments found their concurrent manifestation in the civil law of that period i.e., from the Lex Genucia reforms in Republican Rome (340 BC) which outlawed interest altogether. Nevertheless, in practice, ways of evading such legislation were found and by the last period of the Republic, usury was once again predominant. It was the democratic party in Rome who rededicated themselves to the cause of those suffering the burden of debt, and under the banner of Julius Caesar, a ceiling on interest rates of 12% was set and later under Justinian, it was set at a mean between 4% and 8% (Birnie, 1958).

Clearly, this left fertile ground for the assault on usury which the Church would mount following its Christianisation of the Roman Empire.

### **USURY IN WORLD MAJOR RELIGIONS**

The world major religions prohibit the use of usury. For example, the Torah and Talmud encourage the granting of loans if they do not involve interest, with certain exceptions. Charging interest is mentioned in the Book of Ezekiel as being among the worst sins and is forbidden according to Jewish law. The Torah expresses regulations against the charging of interest in the book of Leviticus and Deuteronomy.

“Do not charge your brother interest, whether on money or food or anything else that may earn interest.” (Deuteronomy 23:19)

“Do not take interest of any kind from him, but fear your God, so that your countryman may continue to live among you.” (Leviticus 25:36)

“If you lend money to one of my people among you who is needy, do not be like a moneylender; charge him no interest” (Exodus 22:25)

In addition, the word “Riba” (interest) is used in the Holy Quran eight times. In 30:39,4:161,3:130, 2:276,2:278 and 3 times in 2:275.

“Those who devour usury will not stand except as stand one whom the Evil one by his touch hath driven to madness. That is because they say: “Trade is like usury but Allah hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge); but those who repeat (The offence) are companions of the Fire: They will abide therein (for ever).” (Quran 2:275)

Further, the oldest known references to usury are found in the Vedic texts of ancient Hindu religious manuscripts dating from 1,500 B.C., which defined usury as any loan that required the payment of interest. Around 500 B.C., the Hindu lawmaker Vasishtha instituted a special law that forbade the higher castes of priests and warriors from exploiting the lower castes by charging interest for a loan.

The main rationale of prohibiting usury are based on: Usury as Unearned Income. (b)Usury as Double Billing (c) Usury as Exploitation of the Needy (d)Usury as a Mechanism of Inequitable Redistribution of Wealth(e) Usury as an Agent of Economic Instability(f)Usury as Discounting the Future.

## MAJOR CONTROVERSIES

**Table 1: World Population as on 2012**

Religion	Adherents	Percentage
Christianity	2.3 billion	31.20%
Islam	1.8 billion	24.10%
Secular <sup>[a]</sup> /Nonreligious <sup>[b]</sup> /Agnostic/Atheist	≤1.2 billion	16.00%
Hinduism	1.1 billion	15.10%
Buddhism	0.5 billion	6.90%
Chinese traditional religion <sup>[c]</sup>	394 million	5.50%
Ethnic religions excluding some in separate categories	300 million	4.19%
African traditional religions	100 million	1.40%
Sikhism	30 million	0.32%
Spiritism	15 million	0.21%
Judaism	14 million	0.20%
Bahá'í	7.0 million	0.10%
Jainism	4.2 million	0.06%
Shinto	4.0 million	0.06%
Cao Dai	4.0 million	0.06%
Zoroastrianism	2.6 million	0.04%
Tenrikyo	2.0 million	0.02%
Neo-Paganism	1.0 million	0.010%
Unitarian Universalism	0.8 million	0.010%
Rastafari	0.6 million	0.010%
<b>Total</b>	<b>7167 million</b>	<b>100%</b>

*Source: Wikipedia latest reports*

**Notes**

a. These figures may incorporate populations of secular/nominal adherents as well as syncretist worshipers, although the concept of syncretism is disputed by some.

b. Non-religious include agnostic, atheist, secular humanist, and people answering 'none' or no religious preference. Half of this group is theistic but nonreligious. According to a 2012 study by Gallup International "59% of the world said that they think of themselves as religious person, 23% think of themselves as not religious whereas 13% think of themselves as convinced atheists".

c. Chinese traditional religion is described as "the common religion of the majority Chinese culture: a combination of Confucianism, Buddhism, and Taoism, as well as the traditional non-scriptural/local practices and beliefs."

Table 1 demonstrates that Christianity still dominates the world population and Islam occupies the second position in terms of followers. The Atheism and Hinduism together constitute more than 31% of followers across the world. Therefore it poses a big challenge to Islamic finance industry to grow specifically in the non-muslim population. Although the industry has grown phenomenally in the recent years, there is relatively a low share of Islamic finance industry in non-muslim communities. Due to ignorance and lack of knowledge, the non-muslim community often perceives the Islamic finance as a community or sectional affair of Muslims. They think that the Islamic system is based on faith and devotion.

It is true that whenever the non-Mulims (with few exceptions) hear about Islamic finance, they get piqued and don't demonstrate any interest on the subject. They are of the view that this particular industry merely caters to one segment of the population. Since the word Islamic finance is associated with Islam, they take it as a community affair of

Muslims. They often argue that what makes Islamic banking special or more special? What makes it different from other non-interest banking? Why Islamic banking conference? Would the Muslims allow the establishment of Christian banking especially in the Muslim countries? Why bring religion into the economy? As such, many investors are left in the dark about what Islamic banking can offer them. Ironically, banking clients today realize traditional banking has numerous drawbacks, including being profit-driven, which places clients in the backseat to the overall interests of the financial institution itself. The subprime formula is the perfect example of this, given its risky method of making the profit at the expense of other lenders and those who were subject to predatory interest rates but could never really afford to pay back their large loans and mortgages.

## CONCLUSIONS

Islamic banking is a very young concept. However despite its remarkable progress during last couple of years, there are problems too. These problems are mainly in the area of misconceptions and misinterpretations about Islamic and Islamic finance. Besides the growing prejudice and misconceptions, need for standardization, lack of public awareness about Islamic Banking and limited resources of qualified people are the major challenges in this particular industry. The major myth about Islamic banking is that it is about a cluster of hard-line religious believers and about religion only. All these things make it clear, that there is need to revisit and revitalise the Islamic finance policy so as to attract the attention and interest of non Muslim population. The Islamic financial experts, academicians and the scholars should ponder over of an alternative mechanism to promote Islamic finance among non Muslims. Although conducting Islamic seminars or conferences play an important role in Islamic finance hype but what is needed is the participation of non Muslims which is overlooked more often. The moment the non Muslims heard of Islamic finance conference, they fall into a false impression and misunderstanding. Therefore the major challenge is to promote Islamic finance in such a way that would not only attract the attention of non Muslims at the first hand but also alleviate their wrong perception about the concept. Instead of Islamic finance, the use of Sharah finance or non interest based finance or the alternative finance which essentially carry the same message but differs in jargon may reduce the prejudice among non Muslims. In the words of Swiss journalist and author, Roger Du Pasquier "The West, whether Christian or Jew, has never really known Islam, ever since they watched it appear on the world stage, Christians never ceased to insult and slander it in order to find justification for waging war on it" Therefore, the basic mission should seek to clearly target investors and institutions outside the traditional target audience of the Muslim community, allowing them to grow and develop, becoming a first choice rather than a compromise.

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