OPEN ACCESS

Al-Qālam القلم

P-ISSN: 2071-8683; E-ISSN: 2707-0077

Volume 28, Issue, 1, 2023

http://alqalamjournalpu.com/

The Evolution of Islamic Banking in Pakistan: An Analysis

Dr. Abdul Manan Cheema

PhD Islamic Studies, University of Sargodha, Sargodha

Hassan Akram

PhD Scholar, Management Sciences, Bahria University Lahore Campus

Abstract

KEYWORDS: Islamic Banking, Evolution, Development, Pakistan, Prohibition of Interest.

Date of Publication: 30-06-2023

Islamic banking offers interest free transactions according to shariah laws. The Role of banking system cannot be denied in modern global economic system. In fact, contemporary conventional banking transactions are totally based on interest. Usurious banking is not allowed in Islam at any cost. Interest is completely prohibited in Islam. Interest is root cause of current socio-economic issues of Pakistan. Islamic banking can play a key role in solving contemporary financial issues. Establishment of Islamic banking is the substitution and solution of current economic crises. Islam is state religion of Pakistan. So, usurious banking cannot be allowed. In 1948, Quaid-e-Azam Muhammad Ali Jinnah clearly declared that western system of banking based on interest would be abolished. But interest-based banking is running still now. Creation of the Council of Islamic Ideology (CII) was created in 1962. The report of the Council of Islamic Ideology (June 1980) on elimination of Interest (Riba) is considered first panoramic work on Islamic banking in the world. Islamic finance foundation "Akhuwat" was founded in 2003 which is working without interest (Riba). It is a practical example of Islamic banking. Various Islamic products like Mudarabah, Musharaka, Murabaha, Ijarah, Salam, Istisna, and Takaful are being offered in banking system. This research study sheds light on only two main Islamic products Musharakah and Mudarabah in Islamic perspective. In this article, the evolution and development of Islamic banking system has been analyzed.

Introduction

Today's business expansion requires secure transfer of funds and delivery of money at the desired location. In this age of globalization, the bank is the only institution that fulfills requirement money transfer safely. The main purpose of a bank is to safeguard money and provide deposits to customers. Bank is a useful institution in modern times, but the presence of an evil element (Riba) has made it impure and illegal. In the modern age, the capital of billions of rupees is collected in a bank, which is occupied by a few influential people. Due to the greed of interest, a large number of people deposit their money in banks. Global financial system is dependent on banking system. Movement of goods, investment, preservation of capital and all economic transactions take place through banks. Interest and usurious business are of key importance in the modern economy system. Della Thompson states that bank is a financial establishment which uses money deposited by customers for investment, pays it out when required, makes loans at interest, exchange currency.[1]According to Encyclopedia of Britannica, bank is an institution that deals in money and its substitutes and provides other financial services. Bank deposits and makes loans and derives a profit from the difference in the interest rates paid and charged, respectively.[2] From the above discussion, the importance and usefulness of the bank in the global economic system can be well understood. The role of bank in modern financial system and involvement of interest in banking is clear.

In the current global economic system, a bank plays the role of a financial intermediary. It provides various economic services to people. Traditional banks give loans to customers at a fixed rate of usury. But Usurious banking is prohibited in Islam. Therefore, Establishment and development of Islamic banking system is a basic need of time. The products of Islamic banking are complete solution not only to the Islamic world but also to the global economic crises. Islamic banking is an alternative to the traditional usurious banking system. Different banks are offering Islamic products in Pakistan. The Islamic institution “Akhuwat” is a good example of Islamic banking in modern times. The article highlights the evolution and development of Islamic banking along with evolution its products.

Review of Literature

Usurious banking has hollowed out the economic foundations. So, Islamic banking (Interest free finance) is an important topic of the present age. The significance of Islamic banking in the present era can be estimated from the fact that seminars are being held all over the world and research work at large scale is being done on Islamic banking. Maulana Muhammad Taqi Usmani is the author of “Ghair Soodi Bankari”. This work of Maulana Usmani was published by Maktaba Maarif al-

Qur'an Karachi. This book enlightens the current global economic system in an Islamic perspective in a delightful way. “Muashiyat Islam” is the book of Syed Abul Ala Maududi, in which Islamic economics was discussed in perspective of contemporary requirements. The need and importance of the system has also been presented.Dr. Najatullah Siddiqi's book “Ghair Soodi Bankari” is an important and informative work on Islamic banking. In it, review of banking is presented by Dr. Siddiqi in detail in Islamic perspective. Dr. Shahida Parveen's research article "Islamic Banking, Present and Future" was published in Research Journal “Jihat ul-Islam” in December 2011.Professor Nighat Moin compiled an article entitled “Factors Affecting the Rapid Growth of Islamic Banking System: A Comparative Ratio Analysis of Selected Banks of Pakistan” which published in research journal “Islamic Culture” June 2020, Vol-43. This is a lively work on the subject of Islamic banking. Apart from the above-mentioned books and articles, Islamic Banking has been discussed. However, presenting the evolution of Islamic banking and its products in the context of Islamic teachings is requirement of the time. Keeping in mind the significance and usefulness of Islamic banking in today's times, the title “The Evolution of Islamic Banking in Pakistan: An Analysis" has been selected.

Research Methodology

In this research paper, content analysis has been adopted as research methodology. Primary sources of literature regarding Islamic banking have been used. However, at some places, research material has also been obtained from secondary sources. Modern technology (Internet) has been fully used to obtain the latest information on the subject. Government Allama Iqbal Library Sialkot and Sirat Study Center Cantt Sialkot were visited to gain authentic research materials. Charts and tables have been arranged to clarify the importance of Islamic banking. Dr. Amjad Saqib's organization “Akhuwat” was specially mentioned to present a practical example of Islamic banking in Pakistan. The English translation of the Quranic verses is taken from the English translation of the Quran by Maulana Taqi Usmani.

Evolution of Islamic Banking

Islam is state religion of Pakistan. Interest based banking is against the spirit of Islam. So, Quaid-e-Azam Muhammad Ali Jinnah had given clear message on occasion of first bank's inauguration ceremony on 1st July 1948 that the western interest based economic system has created problems for humanity. That is why, Islamic banking would be planned in Pakistan. On the occasion of the first economic conference of Pakistan (1949), the Governor of State Bank said that Islam has strongly opposed to usury, so, Usury (Interest) in banks would be abolished. In 1950 and 1951, Sheikh Ahmad Irshad made a small effort of Islamic banking in Pakistan. The constitution of 1956, the constitution of 1962 and the current constitution of 1973 does not allow usurious banking. It is clearly written in constitution 1973 that elimination of interest (Riba) is the responsibility of the state.The Council of Islamic Ideology has also prepared suggestions and recommendations for the abolition of usury in state of Pakistan. First Islamic bank[3] was established in Egypt in 1963. In 1969, a financial institution Tabong Haji was established in Malaysia. Islamic Development Bank was established in 1975 through the efforts of Prince Faisal. Dubai Islamic Bank was established in 1975 and Kuwait Finance House in 1977.This decade is defined as the decade of birth of Islamic banking.[4]

Dr. Ishrat Husain says:

"The report of the Council of Islamic Ideology (CII) on Elimination of Interest (June, 1980) is genuinely considered to be first major comprehensive work in the world undertaken on Islamic banking and finance."[5]

In Pakistan, Islamic banks were licensed in 2002, the first license was given to Islamic bank Meezan Bank. Along with this, usurious banks were also allowed to open separate branches in the name of Islamic banking. Commercial banks have adopted the mark-up method by abandoning Musharaka and Mudarabah, while all Islamic banking activities are based on Musharaka and Mudarabah. Islamic banks in Pakistan are still devoid of the basis of Mudarabah and Musharaka. Most of the Islamic banking in Pakistan is working on Murabaha basis. [6]

Islamic Products of Banking

Various Islamic products like Mudarabah, Musharakah, Murabaha, Ijarah, Salam, Istisna, and Takaful are being offered in Islamic banks. Investors are attracted towards Islamic banking.The main purpose of the Islamic bank is to offer Islamic products by meeting the financial needs of people. The objective of Islamic financial institutions is to create a system that is sustainable so that it may develop the economy, meet the economic needs of the state and assist state in the fair distribution of wealth in the society.

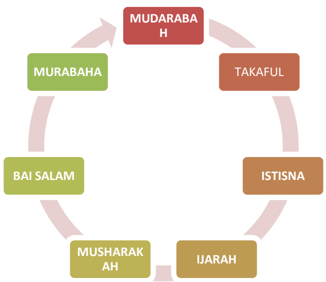


Image: Islamic Products Banking

An Islamic bank refers to an economic institution that conducts all economic affairs in accordance with Shariah rules. Islamic banking can play a key role in solving contemporary financial issues. Interest is root cause of current socio-economic issues of Pakistan. Investing in the Islamic economic system is based on the principles of Musharkah and Mudarbah instead of riba (interest). In the Islamic banking system, working on the basis of Musharaka and Mudarabah is the most important need of the time. Mudarbah has been declared as the basis of Islamic banking in Iran. Saudi Arabia and neighboring China are also trying to develop an internal banking system on a non-interest basis.Interest based transactions are [7] strictly prohibited in Islam In the Islamic economic system, every rupee invested is a business. Syed Maududi states that interest (Riba) has reversed all these advantages of the bank. The capital concentrates in the banks due to the attraction of capital remains the wealth of a few selfish capitalists.Interest (Riba) increases [8] inflation, efficiency decreases, unemployment increases, while in Islamic banking (Mudarbat/Shrakat), prices decrease, unemployment ends, efficiency increases. Promotion of interest-free banking is indispensable for the Islamic reconstruction of economic life. Experts of Islamic banking agree that the banking system can be run efficiently without interest. The Islamic reorganization of banking can be run smoothly based on the principles of Musharakah and Mudarbah.

Mudarbah and Musharkah are the most important components of Islamic banking. In the modern era, partnership business is quite customary. Large commercial and industrial businesses are running on the principle of cooperation and parterneship. A bigger business can be run by following Islamic products of Musharakah and Mudarabah. In the Islamic principle of Musharakah, all stakeholders can benefit and the state's economy can also be promoted. Besides, thousands of unemployed people can also be provided with employment through this golden Islamic business rule.

Quran says:

"يٰٓاَيُّهَا الَّذِيْنَ اٰمَنُوْا لَا تَاْكُلُوْٓا اَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ اِلَّآ اَنْ تَكُوْنَ تِجَارَةً عَنْ تَرَاضٍ مِّنْكُمْ ۣوَلَا تَقْتُلُوْٓا اَنْفُسَكُمْ ۭاِنَّ اللّٰهَ كَانَ بِكُمْ رَحِيْمًا۔"[9]

"O you who believe, do not devour each other's property by false means, unless it is trade conducted with your mutual consent. Do not kill one another. Indeed, Allah has been Very-Merciful to you."

Prophet Muhammad (SAW) says:

" عَنْ أَبِي سَعِيدٍ، عَنِ النَّبِيِّ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ، قَالَ: التَّاجِرُ الصَّدُوقُ الأَمِينُ مَعَ النَّبِيِّينَ، وَالصِّدِّيقِينَ، وَالشُّهَدَاءِ."[10]

> "Abu Sa'eed reported that the Prophet said, 'The truthful trustworthy merchant is with the Prophet (SAW) the True ones and the martyrs on the Day of Resurrection'."

Prophet (SAW) says:

"إن التجار يبعثون يوم القيامة فجارا، إلا من اتقى الله وبر وصدق "[11]

> "The merchants would be raised on the Day of Resurrection as sinners, except those who fear Allah and are pious and truthful."

Prophet Muhammad (SAW) says:

"البَيِّعَانِ بِالخِيَارِ مَا لَمْ يَتَفَرَّقَا، أَوْ قَالَ: حَتَّى يَتَفَرَّقَا - فَإِنْ صَدَقَا وَبَيَّنَا بُورِكَ لَهُمَا فِي بَيْعِهِمَا، وَإِنْ كَتَمَا وَكَذَبَا مُحِقَتْ بَرَكَةُ بَيْعِهِمَا۔"[12]

> "The seller and the buyer have the right to keep or return goods as long as they have not parted or till they part; and if both the parties spoke the truth and described the defects and qualities (of the goods), then they would be blessed in their transaction, and if they told lies or hid something, then the blessings of their transaction would be lost."

The above saying of Prophet Muhammad (SAW) shows that As long as two partners do not betray each other, Allah supports both of them.In the business of the Holy Prophet and Hazrat Khadijah, the principle of Mudarbah was the driving force. The Prophet (SAW) practically participated in Musharkah and Mudarbah. The Prophet (SAW) encouraged Mudarabat and the Companions of the Prophet (SAW) also practiced Mudarabat. Murabaha is a type of buying and selling, in the early stage it was adopted by banks for the convenience of putting their economic affairs in Islamic direction.sciplined program of banking a di Islam had provided [13] 1440 years ago, during the period of Prophethood, central financial institutions such as Musharakah, Mudarabah .Baytul-Mal was active as the national central banking institution which is the forerunner of today's central bank. In the era of Hazrat Umar Farooq (RA), a new thing was added by deriving it from the Qur'anic word Gharmin, giving interest-free loans to people from the government treasury. Interest-free loans were issued from the government treasury (Baytul-Mal). Caliph II himself also used this facility(free interest loan).The main feature of the [14] economic system of Islam is that its main concept is the human being and his economic and moral well-being. He gives the highest importance to social justice, freedom and moral development along with bringing economic development to the highest levels. The reason is that Islamic economic system is different from both capitalism and communism in terms of its purpose, temperament and principles and it is superior to them in every way.[15]

Development of Islamic Banking

Islamic banking is rapidly developing in our homeland. The proportion of Islamic banking assets in the total assets of the banking industry has increased to nearly 13 percent. In the international Islamic financial industry, banking has overtaken other sectors. Currently, 70 percent of Islamic financial institutions are banks. Islamic banks include commercial, retail, wholesale and other banks. So the number of commercial banks is more than other banks.

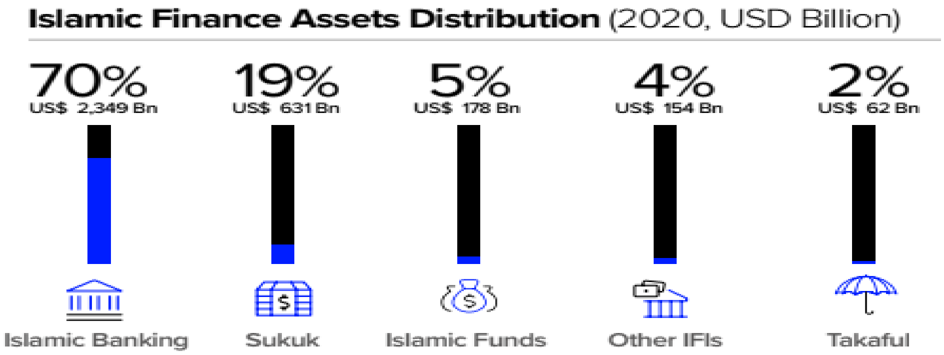


Chart 1: Distribution of Islamic Finance Assets[16]

Analysis of Islamic banking shows that the assets of Islamic banks are 32% of total bank assets. Islamic banking assets are expected to grow at an average of 18 percent in 2021.[17] Statistics reveal the fact that Islamic banking is developing rapidly at the international level, thus there is possibility that it will prove to be an alternative to usurious banking in the future.

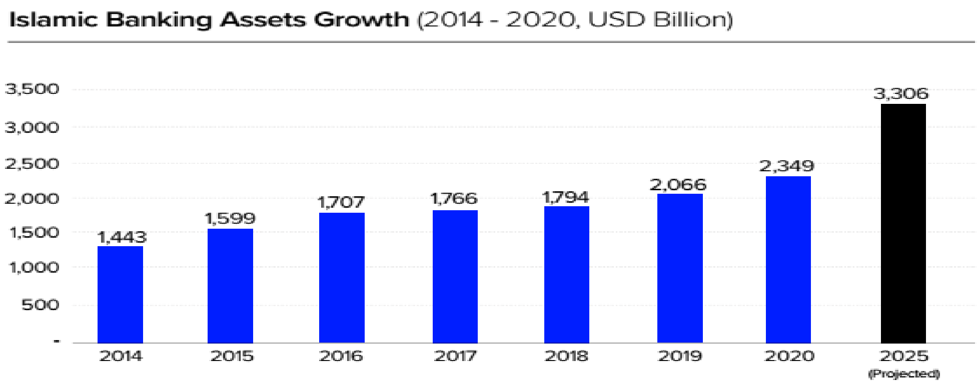
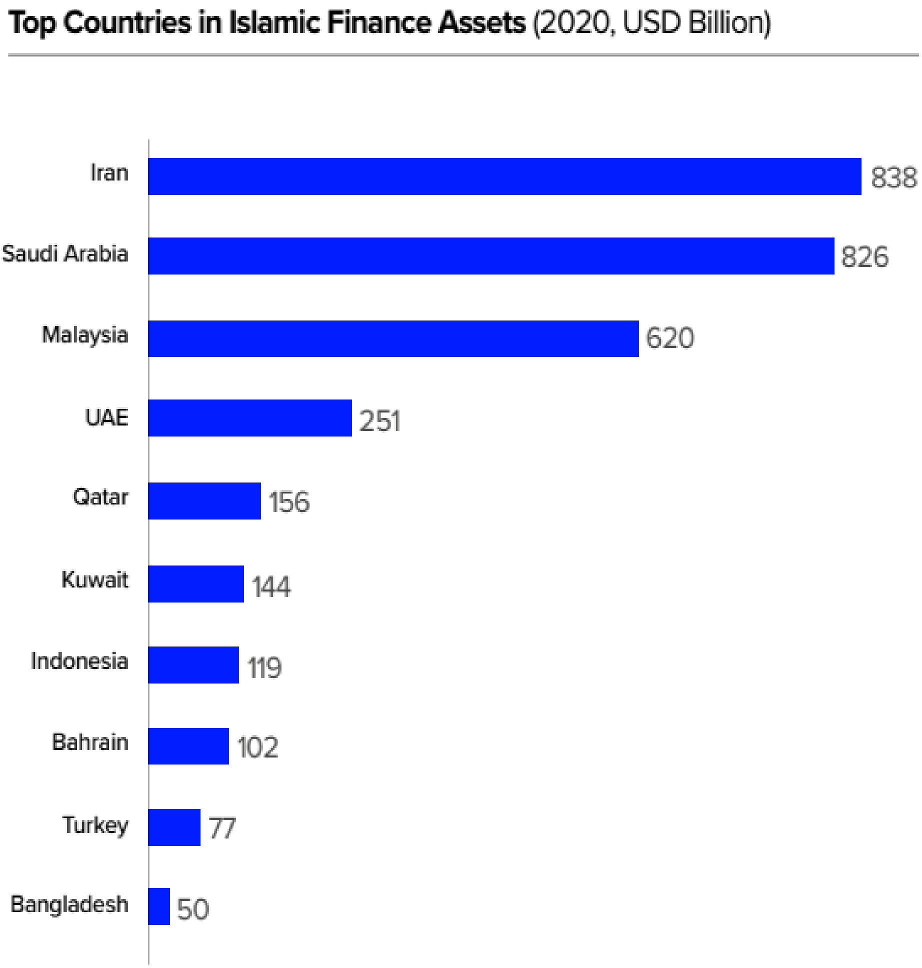


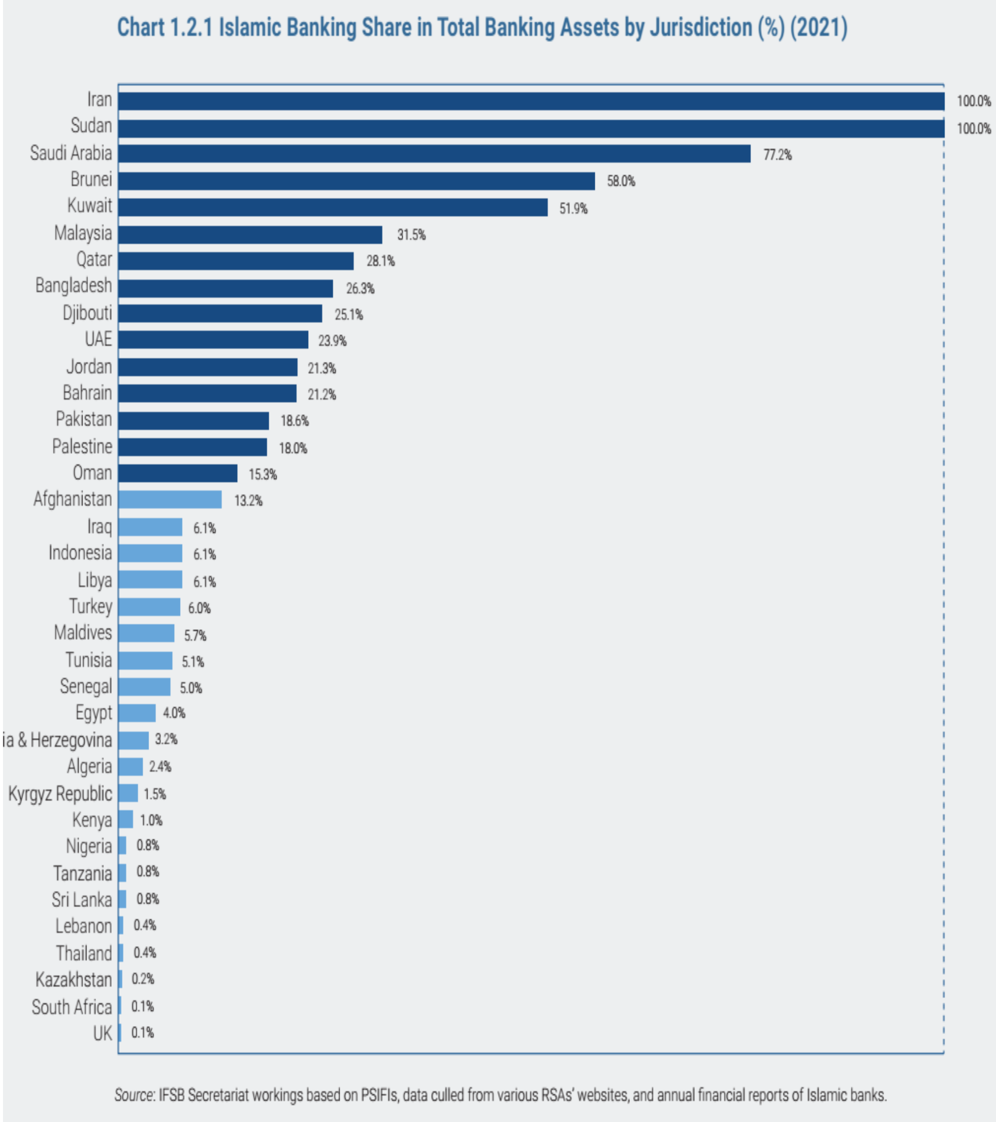
Chart 2: Growth of Islamic Banking Assets (2014 - 2020, USD Billion)

Islamic banking in Iran is developing rapidly. The assets of Islamic banks have reached the financial level of eight hundred and thirty-eight trillion US dollars in Iran.Islamic banks of Saudi Arabia and Malaysia have assets worth eight hundred and twenty-six trillion US dollars respectively.[18]



Country wise share of Islamic Banking Assets in Local Banks

There are several regions/countries having Islamic banks with significant share of Islamic banking as compared to conventional banking industry. Iran have hundred percent Islamic banks and there are no conventional banks. Similarly Sudan Arabia and Brunei have significant Islamic banking industry share in their respective banking industry. Pakistan is on thirteenth position with 18.6% banking share in 2021.(IFSB 2022)



Country wise share of Islamic Banking Assets in Global Islamic Bank Assets

The global Islamic banking assets are led by Saudi Arabia with a share of 30.6%. whereas Iran and Malaysia have global Islamic banking assets share of Rs.17% and 11% respectively. Qatar, UAE and Kuwait are also improving in this regard. Several other Islamic countries are improving on the list now and significant growth will be observed in future. (IFSB 2022)

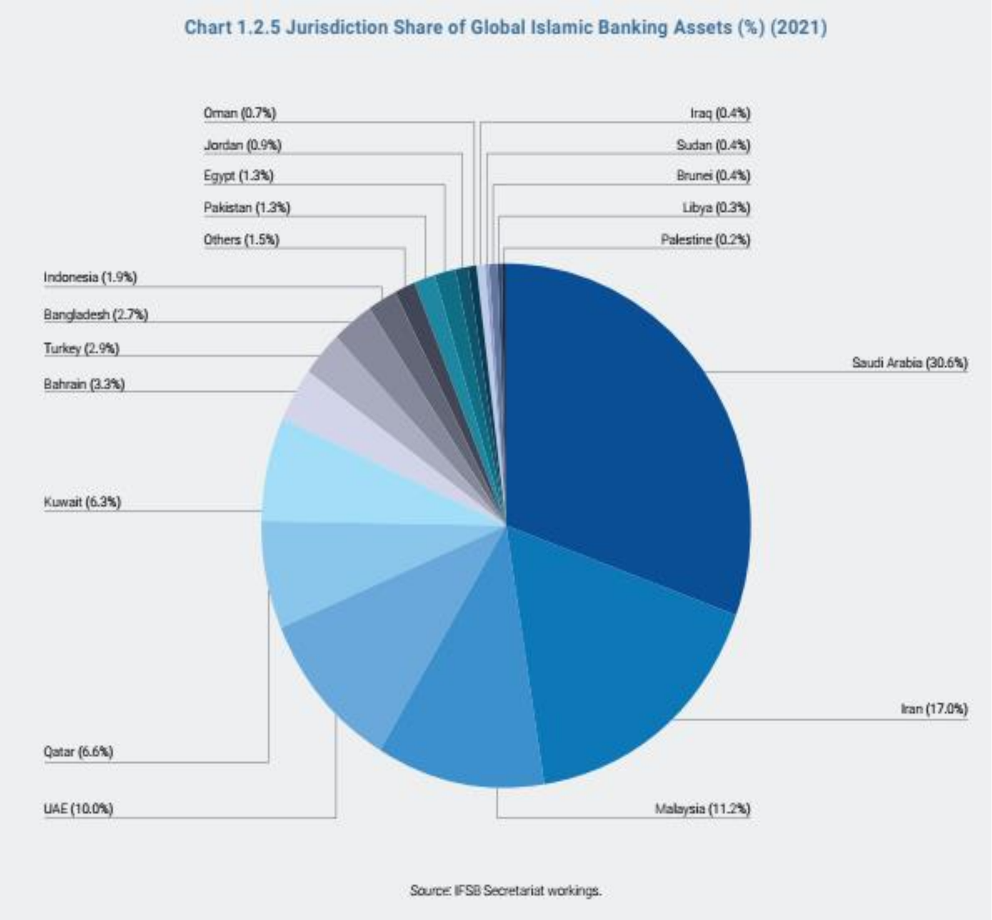


Chart: (Development of Islamic Banks)[19]

Islamic Banks in Pakistan

In Pakistan, overall Islamic bank assets massively grew specially showing an increase of Rs 836 billion during the quarter ending April-June, 2022 and crossed six-trillion mark in 2022. The assets and deposits of Islamic banking grew by 41% and 29% respectively. The Market composition of share of Islamic bank assets and deposits as compared conventional banking industry had a share of 19.5 percent and 20.5 percent keeping in view all banking industry till June, 2022. (SBP, 2022)

Table-1: Industry Progress and Market Share									(Amount in PKR Billion)
Particulars	Period			Yearly Growth (%)			Share in Overall Banking Industry (%)		
	Jun-21	Mar-22	Jun-22	Jun-21	Mar-22	Jun-22	Jun-21	Mar-22	Jun-22
Assets	4,797	5,945	6,781	32.0	35.5	41.4	17.0	19.4	19.5
Deposits	3,822	4,246	4,856	29.7	22.8	27.1	18.7	20.0	20.5
Investments (net)	1,363	2,202	2,672	51.6	63.7	96.1	9.6	14.3	15.0
Financing (net)	2,118	2,692	2,961	24.7	37.8	39.8	24.0	26.0	27.2
Number of Islamic Banking Institutions	22	22	22	-	-	-	-	-	-
Number of Branches*	3,583	3,983	4,086	9.4	13.7	14.0	-	-	-
Number of Islamic Banking Windows	1,562	1,418	1,463	12.1	(11.1)	(6.3)	-	-	-
* *including sub-branches*									
Source: Data submitted by banks under quarterly Reporting Chart of Accounts (RCOA)									

Chart:(Development of Islamic Banks)[20]

The region wise Islamic branches and business is presented hereunder by following graph where Punjab has the most branches and the highest business in Islamic banking. Similarly other regions are presented as well which shows rapid development of Islamic banking in Pakistan as reported by SBP.

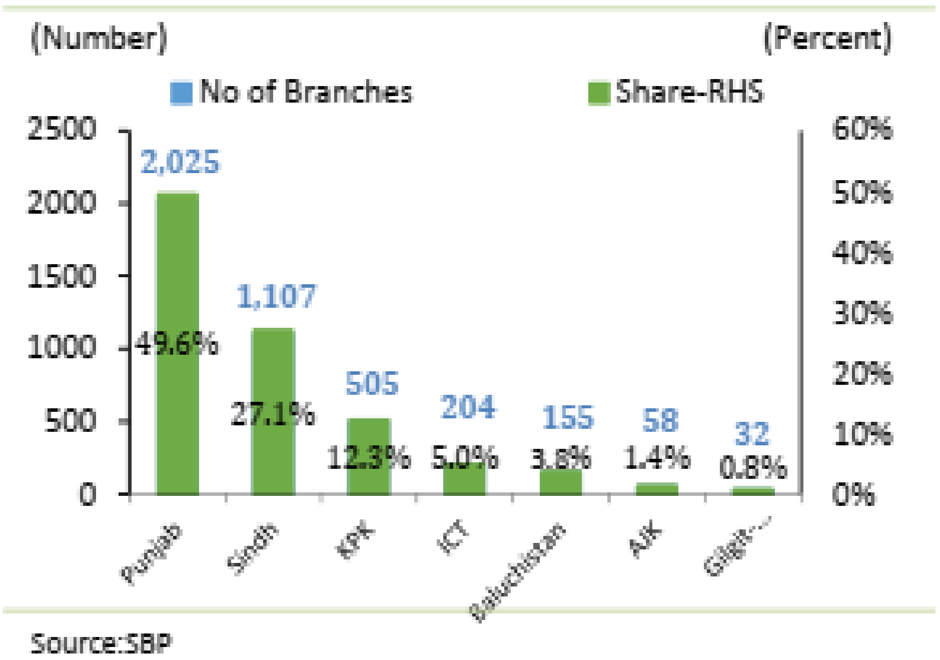


Chart:(Development of Islamic Banks)[21]

Five banks are considered full-fledged Islamic banks in Pakistan. There are Meezan Bank, Al Baraka Bank Pakistan, Bank Islami Pakistan, Dubai Islamic Bank Pakistan, Muslim Commercial Bank. Seventeen conventional banks have Islamic banking branches throughout the country.

Major Islamic Banks in Pakistan

Role of "Akhuwat" in Development of Islamic Banking

Nowadays, "Akhuwat" is an institution that gives interest free loans to the poor instead of the rich. It was founded by Dr. Amjad Saqib in 2003. This foundation has helped millions of unemployed people by giving interest free loans. Conventional banking sector` methodology has been borrowed from the West, from which only the rich can benefit. In the matter of interest-free loans, the method of the "Akhuwat" is extensive and well-established. The success of "Akhuwat" in interest-free banking has admitted at global level.Research Huma Rehman states that Akhuwat is a philanthropic organization and until now the only source of raising funds through philanthropy. Beginning with an amount of 10 thousand rupees, Akhuwat has to date given loans more than four hundred and forty million rupees and is growing further. The idea behind it is that poverty can only be eradicated if society shares its sources with the poor and needy. Dr. Saqib felt that interest charged by micro finance institutions and this practice is against Islam and formal banking sector provides loans to affluent individuals at low rates. This motivated him to provide loans in the form of Qard-e-Hasna.[22] "Akhuwat" is a practical example of modern Islamic banking based on interest free loans. It is clear that in the modern era "Akhuwat" is an exemplary financial and economic institution which is a beacon of light for economists all over the world.

Prohibition of Interest (Riba)

Riba(Interest) means increase ,addition ,expansion or growth .In the shariah ,Riba technically refers to the premium that must be paid by the borrower to lender along with the principal amount as a condition for the loan or for an extension in its maturity.[23]Before Islam, there was a long period of economic exploitation in Arabia and the trap of usury had ruined the lives of the poor for generations. The Prophet (SAW) prohibited all types of (Riba) interest on the occasion of the Hajjatul Wida.[24] Before Islam emerged in Arab; it was a common practice to lend money on a fixed and very high rate of interest. The rich People had to charge manifold the money as usury and a poor person had found himself unable to get rid of that.[25]Usury business and banking is an exploitative system, therefore all types of business and banking based on usury are prohibited in the Qur'an and Sunnah.

Quran says:

" الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ اللهُ الْبَيْعَ وَحَرَّمَ الرِّبَا فَمَنْ جَاءَهُ مَوْعِظَةٌ مِّن رَّبِّهِ فَانْتَهَى فَلَهُ مَا سَلَفَ وَأَمْرُه إِلَى اللهِ وَمَنْ عَادَ فَأُولَئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ"[26]

"Those who take riba (usury or interest) will not stand but as stands the one whom the demon has driven crazy by his touch. That is because they have said: Sale is but like riba. ", while Allah has permitted sale, and prohibited riba. So, whoever receives an advice from his Lord and desists (from indulging in riba) , then what has passed is allowed for him, and his matter is up to Allah. As for the ones who revert back, those are the people of Fire. There they will remain forever."

Dr. Najatullah Siddiqi states that conventional banking system is based on interest. In modern times, a developed economy cannot be imagined without banking. Interest (Riba) has been declared as Haram in the Holy Quran[27] and Sunnah. Transactions based on interest (Riba) are illegal whether the loan is for personal use or for business and trade.

Allah Almighty has described it as equivalent to declaring war from Allah and His Messenger.

Quran says:

"يٰاَيُّهَا الَّذِيْنَ اٰمَنُوا اتَّقُوا اللّٰهَ وَذَرُوْا مَا بَقِيَ مِنَ الرِّبٰوا اِنْ كُنْتُمْ مُّؤْمِنِيْنَ- فَاِنْ لَّمْ تَفْعَلُوْا فَاْذَنُوْا بِحَرْبٍ مِّنَ اللّٰهِ وَرَسُوْلِهٖ ۚ وَاِنْ تُبْتُمْ فَلَكُمْ رُءُوْسُ اَمْوَالِكُمْ ۚ لَا تَظْلِمُوْنَ وَلَا تُظْلَمُوْنَ۔"[28]

"O you who believe, fear Allah and give up what still remains of riba, if you are believers. u do not (give it up) , then listen to the declaration of war from Allah and His Messenger. However, If you repent, yours is your principal. Neither wrong, nor be wronged."

Quan says:

"يٰٓاَيُّهَا الَّذِيْنَ اٰمَنُوْا لَا تَاْ كُلُوا الرِّبٰٓوا اَضْعَافًا مُّضٰعَفَةً ۔ وَاتَّقُوا اللّٰهَ لَعَلَّكُمْ تُفْلِحُوْنَ [29]"

"O you who believe, do not eat up the amounts acquired through Riba (interest), doubled and multiplied. Fear Allah, so that you may be successful."

About 40 hadiths of Sarkardu-e-Alam contain condemnation of transactions based on interest.

Prophet Muhammad (SAW) says:

"عَنْ جَابِرٍ، قَالَ:لَعَنَ رَسُولُ اللهِ صَلَّى اللهُ عَلَيْهِ وَسَلَّمَ آكِلَ الرِّبَا، وَمُؤْكِلَهُ، وَكَاتِبَهُ، وَشَاهِدَيْهِ، وَقَالَ:هُمْ سَوَاءٌ" [30]

"Hazrat Jabir narrates that the Messenger of Allah (SAW) cursed those who eat and feed usury, those who write and those who bear witness to it, and all these people are equal participants in the sin."

The above tradition of holy prophet (SAW) shows that strict prohibition of riba (interest) is clearly revealed in Islam. Because usurious transactions always harm the poor. The basic structure of conventional banking is based on usury and many modern forms of interest are emerging along with the changing times. Islamic society and usurious system are antithetical to each other, the existence of one is the negation of the other and both of them cannot flourish at the same time. In the modern era, there is a need of Islamic financial system through which people can take advantage of transactions worldwide without interest.

When the Christians of Najran were given internal autonomy under the Islamic government, a condition was set for them in the covenant that they would neither eat usury nor engage in usurious business.

Abdullah Ibn Abbas narrates as under:

"عن ابن عباس، قال: صالح رسول الله صلى الله عليه وسلم أهل نجران على ألفي حلة، النصف في صفر، والبقية في رجب، يؤدونها إلى المسلمين، وعور ثلاثين درعا، وثلاثين فرسا، وثلاثين بعيرا، وثلاثين من كل صنف من أصناف السلاح، يغزون بها، والمسلمون ضامنون لها حتى يردوها عليهم، إن كان باليمن كيد أو غدرة على أن لا تهدم لهم بيعة، ولا يخرج لهم قس، ولا يفتنوا عن دينهم ما لم يحدثوا حدثا، أو يأكلوا الربا»، قال إسماعيل: فقد أكلوا الربا، قال أبو داود: «إذا نقضوا بعض ما اشترط عليهم فقد أحدثوا" [31]

"Ibn Abbas (RA) narrates that Apostle of Allah (SAW) concluded peace with the people of Najran on condition that they would pay to Muslims two thousand suits of garments, half of Safar, and the rest

> in Rajab, and they would lend (Muslims) thirty coats of mail, thirty horses, thirty camels, and thirty weapons of each type used in battle. Muslims will stand surely for them until they return them in case there is any plot or treachery in the Yemen. No church of theirs will be demolished and no clergyman of theirs will be turned out. There will be no interruption in their religion until they bring something new or take usury. Isma'il said: They took usury."

Usury is such a heinous sin that it has been called a declaration of war against Allah and the Holy Prophet (SAW). In the ancient and modern societies of the world, economic exploitation in the form of usury is considered correct by the capitalists. usury (riba) has spread its roots like a cancer abscess in global economic affairs. Dr. Mahmood Ghazi states that bank Interest is "Riba". Muslim thinkers all over the world agreed that bank interest is Riba and it is completely forbidden and illegitimate.[32]

Although the bank carries out many economic activities, some of which are positive, constructive, necessary and legitimate, but its main purpose is to invest capital in profitable transactions. The bank provides capital to business people and earns profit from them and the main source of its profit is the interest. Maulana Taqī Usmanī writes that the loans issued in usurious banks have no direct relation to real assets, so they are a great source of artificial currency which has no real value behind it. Due to this, the economy of the whole world has taken the form of a balloon.[33]

Usury (Riba) is the most heinous crime which not only has been declared a sin and crime by all divine religions, but also some philosophers have declared usury as the worst evil and destructive crime for the society, the well-known philosopher Aristotle has declared the income of interest as hateful income, interest is against the law of nature. Some philosophers and economists of the modern era are justifying usury. Nobel Laureate Bertrand Russell exposes that philosophers, whose incomes are derived from the investments of universities, have favored interest.[34]The main cause of the economic crisis in the present time is the interest-based business. Interest (Riba) based business is an unforgivable social crime.

The Shariat Appellate Bench of the Supreme Court of Pakistan (December 23, 1999) in its historical decision declared usurious banking as illegal and contrary to Islamic shariah and directed to ensure the transition of the interest-based financial system to the Islamic system. This decision consists of 1100 pages. [35] On April 28, 2022, the Shariat Court once again declared the contemporary banking system as interest-based. In its decision, the court has issued instructions to the relevant institutions and the government to abolish interest (Riba) in banks by December 2027. Thus, Islamic banking system should be applied by abolishing interest-based banking as soon as possible.

Conclusion

The entire system of traditional banking is based on interest. Banks are a useful institution in modern times but interest (Riba) has washed away its all benefits. Interest is the root cause of all the current economic crises of Pakistan. We cannot achieve goal of sustainable development in Pakistan without elimination of Riba(interest). Usury (Riba) is the most heinous crime which has been declared a sin and crime by all divine religions. Interest based business or banking is an exploitation system. Usurious banking always harms the poor. So, Interest based banking is completely prohibited in Islam. Islamic banking system offers a complete solution to the current financial crises. Interest based transactions is root cause of current socio-economic issues of current era. Islamic banks can lead to the development of nation through Islamic products Musharakah, Mudarabah and Qard-e-Hasna. Islamic banking can play a key role in solving contemporary financial issues. Islamic banking is rapidly developing.

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