

# MEEZAN BANK'S GUIDE TO ISLAMIC BANKING

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## PREFACE

Today the world economic system, that is based on interest and has resulted in concentrating the wealth in the hands of a selected few, creating monopolies and widening the gap between the rich and the poor. In contrast, Islam encourages the circulation of wealth and regards its role as important to an economy as the flow of blood to our human body. Just as clotting of blood paralyzes the human body, concentration of wealth paralyzes the economy. The fact is that today the 10 richest men in the world have more wealth than the 48 poorest countries. Millions are malnourished, lack access to safe water, cannot read or write and in short the quality of life has decayed and the graph continues to go down.

Economic justice requires a viable economic system supported by an efficient banking system. Interest based banking has proved to be inefficient as it fails to equitably distribute wealth which is necessary for the well being of mankind. On the other hand Islamic banking is efficient and ensures equitable distribution of wealth thus laying a foundation for an inflation free economy and socially responsible banking.

The last few years have witnessed a dramatic increase in Islamic banking the world over. At least two hundred Islamic banks and financial institutions have been set up. According to a research report, the growth rate of these institutions is 15% per annum. At least two hundred billion US dollars are invested in this system. Many multinational banks have opened Islamic banking windows or subsidiaries of Islamic banking. The information on Islamic banking is also available in books, CDs and websites in the form of database, multimedia directories, and encyclopedias.

On the Shariah side, there are a number of scholars on the Shariah boards of Islamic banks who have compiled fatwas, resolutions and articles on various issues of Islamic banking and finance. In Pakistan, we have at least two very comprehensive reports on Islamic banking system produced by the Islamic Ideological Council 1980 and the Commission for Islamization of Economy in 1992. Therefore Islamic banking is not a utopian idea. There is a need to develop insight and educate and train bankers in the Islamic economic and banking system. Without having a deep understanding of the principles of Islamic banking, it is difficult to offer products and services that conform to the true spirit of Islamic law.

In July 1998, I joined Meezan Bank as a the Shariah Consultant with a vision to make the bank a model Islamic bank. With the encouragement of Mr. Irfan Siddiqui, our Chief Executive Officer, I carried out a comprehensive training course for the staff of the bank. The series of lectures included topics such as the Islamic economic system, Riba, its prohibition and classifications, Islamic contracts, Islamic modes of financing and their applications, banking in Islam and Islamic investments. Various handouts related to the lectures were distributed to the participants of the course that were mainly taken from my thesis on Musharakah, Mudarabah and Kitab-ul-Buyoo (rules of Islamic Sale relevant to Islamic banking and finance). Some handouts were adapted from the books and articles written by my respected father Maulana Mohammad Taqi Usmani. Our participants of the course were of the view that these handouts and notes from my lectures should

be organized, edited and properly translated into English to develop a proper guide to Islamic banking.

I am grateful to all the team members who helped me prepare this guide and gave me some very good suggestions. I am especially grateful to our colleague Mrs. Zeenat Zubairi for assisting me tirelessly in the translation work, editing and compilation of this project. I am also grateful to Mr. Irfan Siddiqui and Mr. Pervez Said for not only participating in these lectures actively from the inception but also encouraging us in the preparation of this guide.

We are Alhamdulillah running this course successfully at The Institute of Business Administration, (IBA) Karachi. We have already trained two batches and now the third batch is getting its formal education on Islamic banking.

In the end I pray to Allah Subhanahu Wa Tallah to accept our efforts in His cause, and give us the guidance and ability for such humble efforts in future as well to free the world from Riba and revive Islamic values all over the world. Ameen.

**Imran Usmani**

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