

# ISLAMIC FINANCE MUST TURN TO THE ROOTS!

THEME TO BE PONDERED IN AFTERMATH  
OF THE CURRENT GLOBAL CRISES

By  
Muhammad Ayub

## ABSTRACT

*The global economy is facing a deep downturn as a result of the crisis. It was due to excessive ability to create money and credit for earning increasing profits without creating anything of value for use by the mankind. The system needs radical change in the approach, principles and the operation of economic and financial systems. Creation of money, and lending it on interest – interest based debts and financial obligations leading to undue receivables for the lenders, is the biggest and primary problem of the conventional system. Islamic principles of finance provide checks for the factors that have distorted the system. Enhanced supply of risk-related capital, restricted risk taking, balanced return rate structure based on the real sector economic activities, and supply of money commensurate with prospects of growth in an economy, provide a sound basis for sustainable development. Hence, Islamic financial institutions and markets have better ability to sustain in the hard times. Islamic banking industry should not only have escaped unharmed during the crisis, it should also have availed the opportunity of developing into the mainstream system with a new paradigm; but, it failed to take advantage of the opportunity because Islamic banks adopted the same products with some cosmetic amendments. To serve the mankind, Islamic finance must turn to its roots and try to avoid doing the same, before the process becomes irreversible.*

# **Global Financial Recession and its Impacts Performance with of Islamic Banking in Pakistan**

**By**

**Faiz.M.Shaikh,  
Munawwar Ali Kartio**

## **Abstract**

*The research investigates the performance of Islamic banking compare with the conventional Banking system in Pakistan. Data were collected from six leading conventional banking and four Islamic banks operated in Pakistan. It examines the major products/services offered by various Islamic banking institutions (IB) as well as analyzing such institutions' financial performance based on the latest data available. It was revealed that some of the practices and the financial instruments used by the Islamic banks do not seem to conform to the traditional Islamic principles, and it offers suggestions for improvements. It was revealed that performance of Islamic banking the recession period is better than conventional banking in Pakistan. It was further revealed that Islamic banking has more growth in the recession period in Pakistan. The main reason of slow growth of Islamic banking is due to unawareness among the customers and the conventional banks in Pakistan has longer history and experience in doing the banking business and holding dominant position in the financial sector in Pakistan. The financial ratios such as return on Assets (ROA), return on Equity (ROE), Loan to Deposit ratio(LDR) Loan to Asset Ratio(LAR) Debt to equity Ratio(DER), Assets Utilization(AU), and Income to Expense ratio(IE) are used to assess banking performance. T test and F-test were used in determining the significance of results. It was revealed that Islamic banking is less profitable, less risky and less efficient compare with the conventional banking in Pakistan during the study period 2007- to march 2009.*

# ***Al-Bay<sup>ʿ</sup> Bithaman Ājil (BBA) as Practiced in Malaysia: A Critical Review***

By  
Edib Smolo

## **ABSTRACT**

*Islamic financial industry experienced an extraordinary growth over the last few decades and promises to grow even further. The current global financial crisis made some believe that the time has come for the Islamic finance to assume a greater role in the world's financial architecture. They failed to realize that the Islamic finance has several issues that need to be addressed in order to avoid its alienation from the ideals as advocated by the pioneers of the Islamic finance. One of these issues is the al-bay<sup>ʿ</sup> bithaman ājil, or better known by its acronyms BBA. BBA initially was developed as a temporary solution for Islamic banks in Malaysia. However, its status has not been changed yet as it is predominantly used by the Islamic banks in Malaysia. This paper tries to critically review the BBA and its practice within Malaysia. It argues that the current practice of BBA is nothing more but a legal device. If this practice continues, the paper argues, it will lead to the convergence of Islamic banks towards its conventional counterparts. Finally, it is believed that the way out of this situation is either to use BBA mechanism in its true sense or to develop new modes of finance that will be a better representative of the Islamic financial system.*

# ***Al-Ijarah Thumma Al-Bay Facility in Labuan Car Markets: An Application of Structural Equation Model***

By

Hanudin Amin

## **Abstract**

*This paper presents the factors affecting a bank customer's selection of Al-Ijarah Thumma Al-Bay (hereafter AITAB) facility. The study is confined to car markets only in Labuan. A structural equation model analysis was conducted to examine the link between the patronage factors and the selection of AITAB. A total of 150 bank customers were approached to elicit their responses in regard to AITAB facility. Out of these customers, only 148 were managed to be usable and valid for the further analysis of data. It is first of its kind to recommend four factors of interest to determine the selection of AITAB. The findings indicate that 'adherence to Shariah', 'financial counseling available' and 'car dealer relationship' were found to be significant. On the other hand, 'pricing of the product' was found to be insignificant determinants. The study provides a latest insight into a thinking of AITAB facility, and provides information to branch managers of Islamic banking institutions for the better future planning of AITAB facility.*