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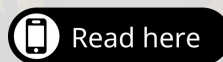
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# The Takaful between economics, law, and religion. Considerations in relation to Islamic contract law and insurance transactions

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## Abstract

The takaful industry as it exists today in terms of its growth potential and the challenges associated with its development. The opportunities associated with takaful are numerous, mainly due to its wider market reach and adaptability; unlike conventional insurance, takaful is permissible for Muslims and non-Muslims alike and offers a more diverse range of products. The takaful industry is also one of the fastest-growing businesses, contributing significantly to the global insurance industry. However, despite the promise of takaful, the industry faces many obstacles today. Most importantly, the overall value of the takaful industry in terms of total assets and contributions (premiums) is negligible compared to both the size of the Muslim population and the conventional insurance industry. Not to mention the challenges related to supervision and transparency, standardization, and lack of knowledge. Therefore, this paper will analyze the economic potential and impact of the takaful industry, as well as explore the role of takaful in poverty alleviation, where some research has already proven successful. It will also examine the challenges facing the industry, which are slowing down its development and preventing it from realizing its full potential.

**Keywords:** Islam, Shari'ah, Takaful, Insurance, Contract, Risk.

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## 1. Introduction

The Islamic insurance industry is increasingly attracting the attention of Islamic jurists and economists because of the growth it has experienced over the past three decades (Cf. *See* paragraph 3).

There are two reasons for this success: the need to operate in accordance with Islamic law and the concrete practical needs of Muslim believers in their lives in society.





The first concerns Resolution No. 9 of 1985, adopted by the *Islamic Fiqh Academy*, which conveys the outcome of the work of the jurists gathered in *Jeddah* with the aim of studying and outlining a risk management tool in accordance with Islamic Revelation (Biancone, 2017).

On that occasion, it was noted that the conventional insurance contract – also known as the commercial one – contains a high-risk hazard between services, thus being contrary to the *Shari'ah* (Castro, 2017), to the prohibitions of *ribà* and *ghàrar* (Warde, 2000).

The insurance contract under Islamic law must be structured as a cooperative legal transaction based on charity, brotherhood, and 'joint management' of risk. The Islamic Fiqh Academy has urged Muslim-majority countries to align their legislation with the resolution to eliminate transactions based on unfair services that do not comply with the principles of Islamic law (Biancone, 2017).

The second reason, however, holds a different level of significance. The expansion of the risk management sector was desired by the 'new' generations of Muslims who needed a tool to cope with harmful future events while remaining *Shari'ah-compliant* (Cupri, 2021).

Considering these factors, offering a legal and economic analysis of this financial instrument is important.

First, we need to outline a general framework.

The term is derived from the Arabic verb *kafala*, which means «to guarantee together» (Rahman, 2015). *Takaful* is a set of insurance instruments that comply with *Shari'ah* principles and are based on the ethical-religious principles of Islam. It is an alternative to the conventional risk management model.

*Takaful* is based on the solidarity-mutualistic principle and uses the institution of donation to provide capital. In Islamic insurance, this principle aims to achieve the collective good of the participants. All insured persons pay a premium to deal with damages affecting the beneficiaries of the *takaful*. The main objective of the institution's legal structure is to promote cooperation among all parties involved. It is important to note that the purpose of the transaction is not fundamentally different from that of conventional insurance, although there are structural differences (Biancone, 2017).

According to Islamic belief, every event is considered a manifestation of God's will. Therefore, Muslims do not seek protection through instruments that rely on the future, as only God has the power to intervene. It is important to maintain objectivity and avoid subjective evaluations. In Islamic terms, preventing future damage - the object of the contract - may be seen as contradicting the divine will, which manages events and the lives of the Islamic community. The *takaful* sector uses a juridical stratagem called *hylal* (Piccinelli, 2006) to respect Islamic principles and meet the needs of the faithful. Its objective is to receive donations deposited into a fund that can be used to compensate for damages. The discussion will return to this point later. For now, let us focus on the Islamic source that underpins the entire Islamic insurance sector. This is a *hadith* of Prophet Muhammad. He saw a Bedouin releasing his camel in the desert and commented:

«Why don't you tie up your camel? The Bedouin replied, I have put my trust in Allah. Muhammad replied, First tie up your camel, then put your trust in Allah» (Biancone, 2017).

This *hadith* is central to the examination as it highlights two profiles: obedience to Allah's divine will and the duty to adopt prudent behavior to avoid harmful events. The debate and the entire contemporary Islamic insurance sector developed around these two elements (Alhabshi and Abdul Razak, 2009).

## 2. The legal structure and contractual nature underlying *takaful*'s operations

To better understand the operational features of *takaful*, it is necessary to focus on its legal structure.

In *takaful* operations, the beneficiary transfers the premium through a *tabarru* contract, which is a true donation. This eliminates risk, a central element in conventional insurance contracts because there is no contract for consideration. Islamic schools of jurisprudence, including the Maliki school, believe that the absence of risk or uncertainty in this form of contract makes *takaful* a *halal* operation due to its gratuitousness or lack of bilateral payment of assets (Qurradaghi, 2011).

Through this donation, the Muslim fulfils the obligation of 'joint management' typical of the Islamic insurance sector. The participant in the fund undertakes to ensure jointly, through this contribution, a situation of loss of another participant. This mechanism serves a dual purpose. Firstly, it guarantees mutual aid between Muslims. Secondly, it limits the scope of the prohibition of *ghàrar*, which would invalidate the transaction if present (Cupri, 2021).



The relationship between the parties involved in the insurance operation is contractual, distinguishing it from conventional transactions (Archer, Abdel Karim, Nienhaus, 2009).

Takaful is based on the commitment of the participants to contribute a sum of money to take care of the interests of the parties involved and, consequently, their own. The policyholders' fund includes contributions, returns, reserves and provisions related to the insurance business and the insurance surplus. It also covers all direct expenses related to the management of insurance operations.

The management of the insurance fund is usually delegated to a company limited by shares. The company is responsible for maintaining a clear segregation between the assets and liabilities of the fund to ensure that the fund can collect the necessary assets and income, as well as the associated liabilities, in the event of certain contingencies.

The Management Company may dispose of its own capital, its income and the management fee resulting from the agency agreement. It may also dispose of the specific share of the profits resulting from the investment of the insurance assets and the commission provided for in the investment mandate. The Company is responsible for all transaction costs, including those related to the investment of the policy assets through the *mudarabah* contract or the *wakala* contract, both of which comply with the requirements of Islamic law (see section 2.1 of this article).

Islamic insurance can emphasize the *musharaka* contract (partnership) between participants. This can lead to the establishment of a company with its own statute or be limited to the *musharaka* alone if there is a third-party company to manage the fund.

The principles on which Islamic insurance is based must be explicitly mentioned in the company's articles of association, regulations, or information set, as outlined in AAOIFI standard No. 26 (2006).

It is important to mention the clause in which the participant agrees to pay his or her contribution without characterizing it as an act of generosity. This is to ensure that those in the group who need a sum of money can receive it, and the party is legally obliged to cover any capital deficits from the outset. According to Islamic law and most scholarship, this must be explicitly accepted by all parties at the time the contract is entered.

In addition, the management company must explicitly address any surplus in the contract from the outset. This can be achieved by including a clause specifically dealing with this aspect. Typically, any surplus will be used for charitable purposes or distributed in whole or in part to the various participants. It is important to note that the management company is prohibited from receiving any share of the surplus assets.

It is important to note the protection of compliance in insurance operations and products, which fits well into the current analysis. Like Islamic banks, this function is entrusted to an internal Supervisory Board known as the *Shari'ah* Supervisory Board (Siddiqui, 2007). The Board is of fundamental importance as it screens individual products and insurance transactions to certify and fully guarantee their compliance with *Shari'ah*. It is a system of internal control and external assurance that guarantees potential customers a *halal*, *i.e.*, lawful, offer.

The insured party has certain obligations that must be observed.

This includes promptly providing all necessary information about the property to be insured and notifying us of any circumstances that may increase the risks after the policy has been taken out. In the event of misrepresentation, the party loses the right to compensation, either in part or in full, in proportion to the incorrect information provided.

In addition, the party is obliged to pay the agreed periodic premiums. Failure to pay the periodic premiums within the agreed terms may result in the party being forced to terminate the contract. Failure to pay the periodic premiums within the agreed terms may result in the party being forced to terminate the contract. Islamic law provides even greater protection for parties who default in good faith. Islamic solidarity requires creditors to observe this rule carefully and invites them to be lenient towards the debtor (Donini, 2010).

In addition, the member must immediately notify the company of any insured event under the takaful contract. This notification must be made within the time limit specified in the contract. If there is a risk of significant financial loss due to a delay in notification, the negligent customer may be required to pay compensation for the value of the loss suffered because of the failure to notify.

Having outlined the main duties and obligations that characterize the Islamic insurance sector, it is now useful to focus on the Islamic contracts that form the basis of *takaful* and which inevitably determine its profile and operational mechanisms.





## 2.1 The *mudarabah* and *wakala* contracts used in the *takaful* sector

Two contractual cases, *mudarabah* and *wakalah*, are the main models of *takaful* organization. The differences between these models relate to the type of contractual relationship between the manager and the insured and the method of remuneration for the management activity.

Firstly, attention must be drawn to the *mudarabah* contract. This contract adopts a partnership model in which the financing party (*rabb-ul-mal*), in the specific case of *takaful*, the insured, contributes capital. The other party, the manager (*mudarib*), in this case, the fund manager, has the task of administering the assets (Donini, 2010).

Regarding the profile of capital injection by the insured, this operation takes the form of a donation to comply with Islamic law. The underlying contract, *mudarabah*, provides clear rules for making any excess capital investments. However, it should be noted that this transaction is not the primary purpose of the entire operation. Instead, placing a partnership contract based on the transaction is merely an additional activity to optimize the proceeds of the *Takaful* fund until the time of any claims for compensation by the participants.

Therefore, this contribution focuses on the use of the *mudaraba* contract in *takaful* operations. In this arrangement, the *takaful* operator acts as the *mudarib* (entrepreneur) while the participants act as the *rabb-ul-mal*. The *takaful* operator is responsible for managing the investment of the fund's capital on behalf of the participants in the *takaful*.

The utilization of this contract affects the distribution of profits generated by the *takaful* fund. Typically, the profits are divided equally between the parties unless otherwise agreed upon in the contract. Regarding the distribution of losses, they are usually borne by the *rabb-ul-mal* party unless the *mudarib* acted fraudulently or *ultra vires*. However, to protect the interests of the participants, *takaful* operators must comply with certain rules. One of these rules is the recall of capital loans (*qard hasan*) by operators in the event of a shortage of *takaful* risk funds.

Additionally, Islamic jurists argue that the contract underlying the *takaful* transaction is a valid alternative to instruments typically used in the secondary market, which are based on interest rates. The phrase 'so-called' has been removed as it is unnecessary. Conventional investors typically invest in long-term bonds or stocks that may involve goods and services considered *haram*, meaning illicit (Iqbali and Mirakhor, 2011). It is important to avoid subjective evaluations unless clearly marked as such. The text has been improved to adhere to conventional structure, clear and objective language, formal register, precise word choice, and grammatical correctness. The sentence structure has been simplified, and technical term abbreviations have been explained. The text has been balanced by avoiding biased language. The logical flow of information has been maintained with causal connections between statements. No new content has been added to the text.

In conclusion, this management model involves the participant paying a contribution to the *takaful* operator, which is then split into a savings part - the participant's account - and a risk part - the participant's special account or risk fund. The funds in the participant's account belong to the individual who made the payment, while the amounts in the participants' special account become a welfare fund, *i.e.*, a real joint account.

The *wakala* model is another option for the base of the *takaful* fund. This model regulates the legal relations between the *takaful* operator and the participants through an agency contract. The operator acts as an agent (*wakeel*) on behalf of the participants-clients for both risk management and investments. The *wakeel* is compensated through a contractually specified commission or a percentage of turnover. The fees should cover all management costs and the shareholder profit charged to the *takaful* fund. The *takaful* operator should not share the results of the subscription as they belong only to the participants. Since the fees of *takaful* operators are calculated in relation to the contributions entered the fund, there is a tendency to take out the largest number of policies, which often results in a general lowering of the quality of claims management (Annuar, Rosly, Abdul Rashid, 2004).

The model has been widely criticized for not providing sufficient incentives for *takaful* operators to manage the *takaful* fund effectively. To address this issue, an alternative *wakala* model has been introduced. This model offers performance-based commissions, including an initial fee and a fee proportional to the subscription surplus for good management. Providing incentives to economic agents implies an increase in profit and turnover of contributions and invested funds.

From a comparative perspective, it can be argued that the modified *wakala* contract is more like *mudarabah*. The structure of the incentive changes, but the mode of governance is similar in form and purpose to that of *mudarabah*.



### 3. Size and diffusion of takaful in the world: a quantitative analysis

In recent years, there has been an increase in demand from Muslims, and it appears that they are more inclined to engage with Islamic finance institutions (IFIs). The Islamic finance industry has experienced a compound annual growth rate of 6% from 2012 to 2017, and as of 2021, the total asset value of global Islamic finance markets amounted to 4.5 trillion U.S. dollars. It is projected that the total asset value for the global Islamic finance markets will amount to 6.67 trillion U.S. dollars by 2027, as shown in Figure 1.

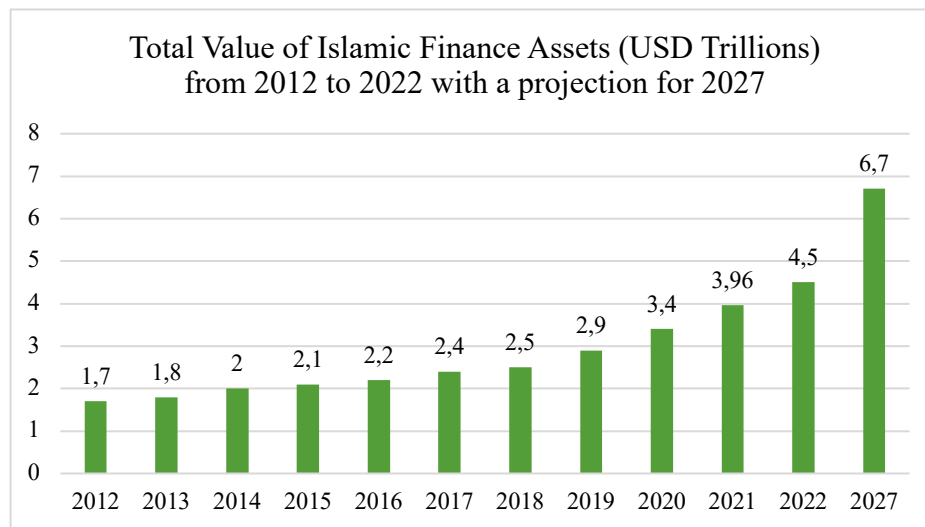


Figure 1: *Total Value of Islamic Financial Asset*. Source: Authors' elaborations on IFD 2023<sup>1</sup>.

Malaysia, Saudi Arabia, and Indonesia are the largest market contributors to global Islamic banking markets, followed by GCC countries (see Figure 2). Malaysia has become the first country with the highest number of Islamic banks worldwide, with 38 units between Islamic banks and windows. Iran is the leading *Shari'ah compliant country* and has 42 Islamic banks.

<sup>1</sup> The figures for 2012 to 2021 are based on historical data, with the 2021 value sourced from the State of the Global Islamic Economy Report. The 2022 value is reported in the ICD-LSEG Islamic Finance Development Report 2023. The projection for 2027 is also from the same report. Please note that these figures are estimates and projections, and actual values may vary due to market dynamics and other influencing factors.



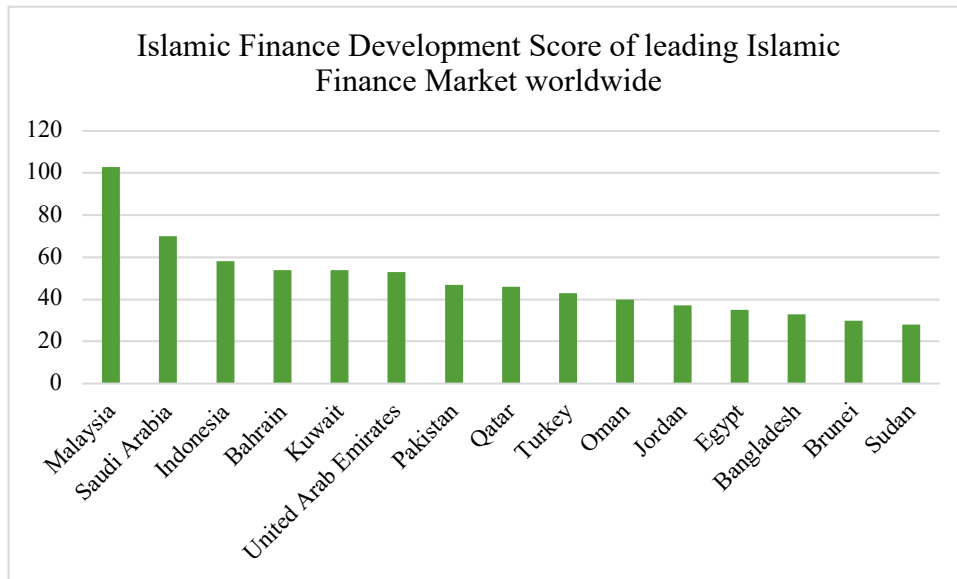


Figure 2: Leading Islamic Finance Countries. Source: Authors' Elaborations on IFDI 2023<sup>2</sup>.

Figure 3 highlights the dominance of Islamic banking within the industry, accounting for the majority of total assets. The sukuk market also represents a significant portion, reflecting its importance in Islamic finance. Although the *takaful* has been the most innovative product of modern times and the importance of insurance coverage in every aspect of life, this sector is considered to lag the Islamic financial services industry. The *takaful* sector is the smallest of the Islamic finance industry, accounting for US\$73 billion, or just 2% of total global Islamic finance assets<sup>3</sup>.

Sector	Assets (USD Trillions)	Percentage of Total Islamic Finance Assets	Number of Institutions/Instruments
Islamic Banking	3.24	0,72	455
Sukuk	0.77	0,17	2,600+ instruments
Islamic Funds	0.14	0,03	1,500+ funds
Takaful	0.09	0,02	350+ operators
Other Islamic Financial Institutions	0.27	0,06	1,000+ institutions

Table 1: Islamic Finance by Sector. Source Authors' Elaboration on IFDI 2023.

<sup>2</sup> These scores are sourced from the ICD-LSEG Islamic Finance Development Report 2023, which assesses the development of the Islamic finance industry across various countries. The IFDI is a composite weighted index that measures the overall development of the Islamic finance industry. Please note that these scores are based on data available up to 2023 and are subject to change as the Islamic finance industry evolves.

<sup>3</sup> The asset values are approximations based on the total industry assets reported in the ICD-LSEG Islamic Finance Development Report 2023.



The takaful market experienced significant growth in 2021, with a 17% increase (refer to Figure 4). This growth has resulted in intense competition between Islamic and conventional operators, especially in the GCC region. The increased medical and motor claims has been a major driver of this competition.

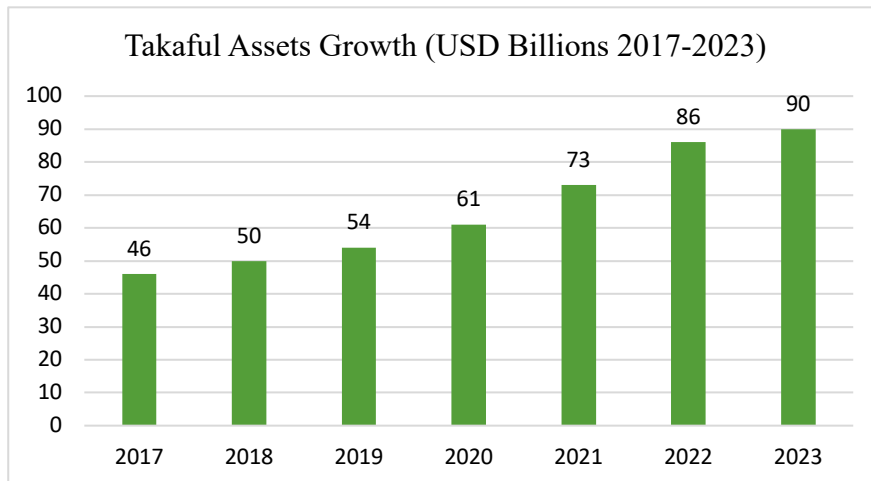


Figure 4: *Takaful Growth*. Source: Authors' Elaborations on IFDI 2023.

Takaful distribution varies across the globe, with Southeast Asia experiencing significant growth. This could be attributed to factors such as sizeable Muslim communities, governmental support for Islamic finance, and an expanding middle class seeking financial products that align with their principles. However, takaful is less prevalent in other regions. In 2022, the takaful market was dominated by Iran, Saudi Arabia, and Malaysia, which together accounted for 79% of total assets (Figure 5). Saudi Arabia had 35 takaful operators and contributed US\$33 billion in total assets, showcasing its strong position in the market. Meanwhile, Malaysia had 20 active companies and contributed over US\$9 billion in total assets, highlighting its significant presence as well. The takaful market in Iran is steadily growing, with USD 12 billion in assets thanks to 26 TO. Additionally, Indonesia and the United Arab Emirates are also significant contributors to the takaful market. It is worth noting that Indonesia is the second Asian country, after Malaysia, to provide more than three billion US dollars to this sector.

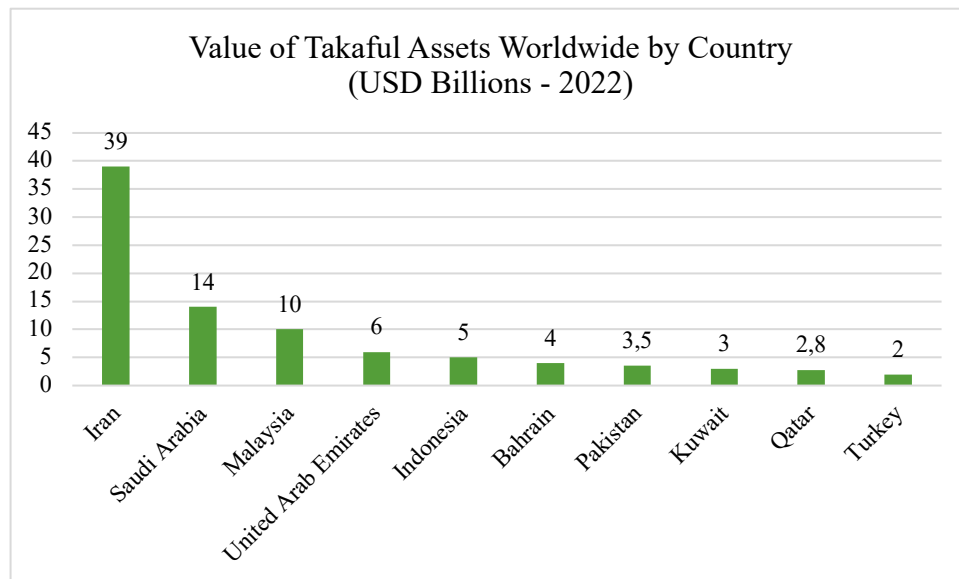


Figure 5: Value of Takaful assets by country. Source: Authors' Elaborations on IFDI, 2023.

Although the potential of the takaful market is currently marginal, there are untapped markets in North America, Europe, and Africa. With nearly two billion Muslims worldwide and numerous insurable interests, the takaful sector should have grown to over 2% of the global Islamic financial services industry. Furthermore, OIC member countries account for about a quarter of the world's population. Most of the global Muslim population is young, with 60% of individuals under the age of 25. This presents a significant opportunity for businesses to target this demographic early on and establish a long-term customer base. As their levels of affluence continue to rise, this young Muslim population has the potential to become a valuable market for years to come<sup>4</sup>.

#### 4. Closing thoughts and prospects

Since the Islamic *Fiqh* decision in 1985, it has been established that the mutualist principle is the cornerstone of insurance in accordance with the Islamic religion. Participants decide to protect themselves collectively against certain events by contributing their resources to a collective fund. The *takaful* insurance approach is characterized by the role of the company as the manager of the participant's fund. The structure is logical, with causal links between statements and a clear progression of information. The text is free of grammatical, spelling and punctuation errors. Contributions are made in the form of a donation, known as a *tabarru*, to remove the element of *ghàrar*. No changes are made to the content. This ensures full *Shari'ah* compliance in all transactions. The language used is clear, objective and value-neutral, with a formal register and precise choice of words. The text adheres to conventional structure and formatting features, with a consistent citation and footnote style. In the conventional insurance system, the insured person pays a lump sum in the form of a premium and has an obligation to the insurance company. Moreover, if the insurance company makes a profit on its investments, the policyholder does not receive any share of the underwriting profit as all the funds belong to the company. In *takaful*, however, any profit is distributed to the insured.

<sup>4</sup> It is along this trajectory that major financial centers could play a role in ensuring that financial inclusion is at the top of the political-economic agenda. Lloyd's CEO said: "It is extremely important that we in the London market continually review the products and services we offer to our customers around the world and how we deliver them. Having the ability to deliver Shari' ah-compliant risk products will ensure that London remains relevant to all communities and strengthen our position as a center of innovation." Another key aspect is the InsurTech sector, where financial technology (FinTech) is applied to expand insurance offerings.





Although the *takaful* market has yet to gain a real foothold in the global market, unlike the *Shari'ah-compliant* contractual and financial sector, its 'ethical' structure is an emanation of the principles of fairness and mutual burden-sharing, providing economic protection to the members of the fund. The Islamic insurance market is characterized by a focus on social justice, which brings it closer to conventional ethical instruments in the European market. It represents a new paradigm of risk management that is a source of profit in the insurance, banking, and financial markets.

In non-Muslim majority contexts, there is an opportunity to explore the unexplored legal-economic world due to the ever-increasing Muslim migratory flows and the growth of trade relations between the West, the Middle East, and Southeast Asia. This world provides a platform for insurance, or more generally, risk models, to interact and develop as a reflection of an increasingly globalized, open, and free market.

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# Integrating AI Technologies in Interest-Free Finance: Advancing Sector Capabilities through Innovative Model Proposals

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## Abstract

This study explores the intersection of artificial intelligence (AI) technologies and interest-free finance, delving into the transformative potential of financial technology advancements in this sector. The aim establishes a theoretical framework for a financial interaction model grounded in machine learning, a subset of AI technologies. This framework underpins the development of novel digital contract methods adhering to the principles of interest-free finance. Central to this investigation is conceptualising and evaluating the "Benefit Sharing Model," which utilizes machine-learning techniques. This model serves as the foundation for eight distinct digital contract proposals, offering innovative solutions for the operational challenges in the interest-free finance sector. These digital models facilitate various financial interactions, such as deposit collection and financing processes, for users within the interest-free financial system. A significant study component involves a comparative analysis of these smart contract proposals, envisioned as blockchain-based, smart, interest-free financial contracts, against existing models in the field. This comparison demonstrates the technical feasibility and applicability of these proposals and highlights their uniqueness and potential advantages. This research contributes to the diversification and expansion of interest-free financial technology applications by introducing smart contract models and exploring their practical implications. It underscores the possibilities for broadening the scope and enhancing the growth of the interest-free finance sector, marking a significant step towards integrating cutting-edge AI technologies into ethical and interest-free financial practices.

**Keywords:** Artificial Intelligence, Interest-Free Finance, Financial Technology, Smart Contracts, Islamic Finance

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## 1. Introduction

A digital iteration has caught up in every sector, since the inception of the internet back in the 1990, and far-reaching implications have been for financial technologies. The advent of internet technology on a worldwide basis didn't only equalize access to information but also stimulated innovation within financial services (O'Halloran, J., & Nowaczyk, N., 2019). AI-information-based processing has evolved over time, resulting in computational methodologies transforming and the business model changing across industries significantly, mostly pertaining to finance (Smith & Johnson, 2019).

This is a technology that has made it possible for millions of miles and analyses to be collected in the form of big data. Today, globally leading corporations act as data centers and take advantage of this huge basin to achieve strategic commercial benefits (Sohangir et al., 2018). In such a situation, AI-based technologies have turned into the need for time in order to process and effectively use collected data. At the same time, although incredible amounts of information in various areas that have become accessible to a wide range of people can be considered an achievement or even progress due to their informative value, it is often difficult for us as human beings with some inherent limitations cope without modern computational technologies.

The previous statement has affected the financial sector in a major way. Modern financial technologies, notably those that incorporate AI elements into their design and functioning structures have changed the old paradigms of decision-making as far as traditional finance goes. Automation is not the end of this transformation, but it runs further to the invention of financial products and services. Cognitive computing, computer vision, machine learning, artificial neural networks and natural language processing have ushered a new paradigm in financial services through AI-based technologies. These techniques make it possible to work with large volumes of information, which is essential for making more detailed and accurate financial analyses (Aylak et al. 2021).

This paper explores a significant gap in the existing literature by proposing a novel integration of artificial intelligence technologies within the domain of interest-free finance, an area that remains substantially underexplored compared to its conventional counterparts. The fusion of AI with interest-free financial practices opens new avenues for financial product innovation and aligns with the ethical and religious principles that govern Islamic finance. As financial technologies continue to evolve, the potential for AI to enhance the transparency, efficiency, and compliance of interest-free financial instruments becomes increasingly pertinent.

This study seeks to answer the following research questions (RQ):

RQ1. How can artificial intelligence technologies be applied to enhance the operational efficiency of interest-free financial institutions?

RQ2. What role can AI play in ensuring the compliance of financial products with Shariah principles?

RQ3. In what ways can the implementation of AI technologies in interest-free finance contribute to the broader field of financial technology?

By addressing these questions, the study aims to bridge theoretical knowledge with practical applications, providing a robust framework for adopting AI in enhancing interest-free finance capabilities. This research not only contributes to academic discourse but also offers actionable insights for practitioners in the field, thereby fulfilling a dual role of scholarly and practical significance.

The use of technology in financial institutions has been quite varied and far-reaching. Leading innovations found in Fintech include digital payment platforms, investment advisory through online means such as social media, individual security of personal finance and insurance integrated with AI. In addition, such technologies as big data analytics, biometric identification verification systems, the internet of Things (IoT), cloud computing and storage devices in health management technology business infrastructure development could lead to more efficient processes on the one hand (GreenWood, 2022).

Machine learning plays a pivotal role in using AI in the realm of finance, whereby algorithms are put through rigorous training using specific data supplements, and this helps these entities to generate important decision outputs independently. This technology has not only gone a long way toward turning financial forecasting, risk analysis, bankruptcy prediction and more from handicrafts into scientific disciplines but also provides solid technical foundations that coexist in harmony with traditional econometric methods (Alpaydın, 2014).

In the context of interest-free finance, due attention in recent years has been paid to artificial intelligence-based technologies. Especially relevant is the opportunity to perform several data analyses on ML-based methods that may imply financial decisions through analysis of correlations among correlated information. This issue is particularly relevant in light of the practice of interest-free financial transactions, which are regulated according to principles that differ from traditional finance systems (O'Halloran & Nowaczyk, 2019). The machine learning algorithm designed in this study for the proposed "Benefit Sharing



Model” is specific to interest-free economic transactions, and it comfortably adheres to several principles underpinning such an operation.

In Islamic law, the concept of interest-free finance does not allow for economic activities that lead to an imbalance between an individual and his or her social structure, such as transactions with usurious charges. Anywhere in the world, financial organizations cover themselves with common names such as “Islamic banks”, “participation banks”, or rather interest-free financial institutions and observe these guidelines. Institutions succeed in different formations, namely those established on an Islamic banking license, conventional banks that provide windows without capturing interest issued by consumer employees, and subsidiaries participating in venture capital activities as well as for free business (Alamad, 2020).

These historical models of Islamic finance, without interest can be largely considered as financial innovations which catered for the societal security needs during those times. These models require reinterpretation for further financial innovativeness. When creating financial products that are free from interests, one should pay attention to the main purpose of shariah, which is based on the context and spirit rather than merely contractual wording (El-Gamal, 2006).

On the other hand, the interest-free finance segment has its challenges, including a structural deficit of funds for the long term and mismatching between like ends. These problems force the creation of methods that can more correctly calculate sharing formulas between risk and profitability, considering various impact factors. This necessity also points to the significance of improving financial engineering tools, which are interest-free-oriented in terms of interest-free finance principles at an ecosystem level (Al-Bashir, 2008; Alamad, 2020).

In the present study, a new model that offers to deal with these challenges, the “Benefit Sharing Model”, will be suggested. The model aims to improve financial engineering techniques' effectiveness through AI-based technologies in interest-free finance. The focus here is to institutionalise the use of contemporary computational techniques while remaining true to ancient ethical principles. As such, this will promote change and innovation in the field.

## 2. Literature Review

The convergence of artificial intelligence (AI) and interest-free finance represents a burgeoning field of study, blending advanced technological paradigms with ethical financial principles. This extended literature review delves into the depth of research on AI's role in finance, the unique attributes and challenges of the interest-free finance sector, and the innovative integration of AI within this realm.

The transformative impact of AI on the financial industry is profound and multifaceted. Researchers like Williams and Patel (2020) and Johnson and Zhao (2018) have explored the broad applications of AI in areas ranging from algorithmic trading to customer service automation. The effectiveness of machine learning and data analytics in enhancing risk management, fraud detection, and predictive analytics has been widely acknowledged (Brown, 2021; Smith, 2019).

Interest-free finance operates on principles distinct from conventional finance, especially within the Islamic financial framework. Challenges in product development and liquidity management have been noted (El-Gamal, 2006; Alamad, 2020; Al-Bashir, 2008), emphasizing the need for innovative solutions that comply with Islamic principles.

The application of AI in interest-free finance is an emerging research area. Studies by O'Halloran & Nowaczyk (2019) and Aylak et al. (2021) demonstrate AI's potential to offer sophisticated tools for financial analysis and Shariah-compliant product design. The emergence of AI in Islamic finance, particularly the pioneering nature of the Benefit Sharing Model, is highlighted by Alam et al. (2021).

The integration of AI in interest-free finance raises important questions about ethics and Shariah compliance. The work of researchers like Greenwood (2022) and Khan (2023) highlights the need for AI tools that are transparent, ethical, and Shariah-compliant.

Recent studies have focused on emerging technologies like blockchain and their potential in interest-free finance. Researchers such as Wilson & Abdullah (2024) and Farooq & Patel (2022) have explored how blockchain and smart contracts could revolutionise Islamic financial transactions, offering transparency, security, and compliance. The originality of the Benefit Sharing Model's concept was confirmed through comprehensive database searches, indicating its uniqueness in the realm of interest-free finance (Gazali et al., 2020). Recent advancements in AI have sparked significant interest in their application across various sectors, including finance. However, their integration into interest-free finance, particularly within the context of Islamic banking, presents a unique set of challenges and opportunities that have not been thoroughly explored in



the existing literature. This study extends the review of pertinent literature by incorporating foundational and recent works that examine the intersection of AI and Islamic finance, thereby filling a notable gap.

Researchers such as Alam et al. (2021) have made significant contributions in this domain and are exploring the operational enhancements AI can bring to Islamic financial products and services. Furthermore, the Technology Acceptance Model (TAM), originally proposed by Davis (1989), offers a relevant theoretical framework for understanding the adoption of AI technologies in Islamic finance. TAM's constructs—perceived usefulness and perceived ease of use—are particularly pertinent in assessing the acceptance of technologically advanced, Sharia-compliant financial solutions among both providers and consumers.

Moreover, incorporating AI into Islamic finance is not just a technical integration but also involves significant compliance with Shariah principles, which necessitates a thorough review of both technical and ethical guidelines. Studies by Khan (2023) and Greenwood (2022) delve into these aspects, highlighting the need for AI tools that are not only effective but also adhere strictly to Islamic ethical standards. These works underscore the importance of ensuring that AI applications in interest-free finance not only enhance efficiency but also uphold the moral and ethical values fundamental to Islamic finance. By critically analyzing these contributions, this literature review aims to provide a comprehensive backdrop against which the innovations of this study can be positioned. This enhanced review contextualizes the integration of AI in interest-free finance within the broader technological advancements. It highlights the unique considerations that must be addressed to align these technologies with Islamic financial principles.

### 3. Methodology

This study adopts a qualitative and comparative research methodology, focusing on the integration of artificial intelligence in the interest-free finance sector. The methodology is structured into several key components: We applied some academic methodological approaches in this study. We primarily utilized "qualitative analysis" and "comparative analysis." We also considered document analysis, literature review, and other relevant methods during this process. The methodology can be described as follows:

This entailed an extensive review of academic papers, industry reports, policy documents, and Shariah compliance guidelines. The aim was to get a detailed awareness of the present condition in which AI is availed about Islamic finance and also what types of procedures are instituted on its program so far as emotional aspect.

Interviews and public records, as well as institutional reports, generate our data. In this regard, each case is considered by the process of implementation and the specific details that include challenges met during it and outcomes obtained because of practice in corporate sector adherence to the Islamic financial commandments.

Thematic analysis was used which allows us to produce an integrated interpretation of data obtained in interviews with the participants in focus groups and case studies. We cross-case and cross-interview compare findings to highlight common themes, unique issues or struggles, and best practices. This methodology seeks to attain an in-depth analysis of the role played by AI within interest-free finance, focusing on its Shariah compliance and financial, ethical nature with a forward look at policy from practice.

In this study, current policies and legal systems considered regarding AI adoption in the interest-free finance industry comprising national global financial regulations as well as directives connected with Islamic financing. In this sector, we delve into the morality considerations surrounding AI applications, touching on application privacy policy transparency issues and ensuring that they do not breach any Islamic ethical requirements. We engaged Shariah scholars and Islamic finance experts in this study to evaluate the compatibility of AI applications within the framework of Islamic finance. Their assessments focused on determining whether the use of artificial intelligence solutions for financial services aligns with the relevant ethical and legal standards as prescribed by Islamic law. The study utilized qualitative research methods, including case studies, to identify key emerging trends in the application of AI within the interest-free finance sector. This approach ensures a comprehensive understanding of how these technological innovations can be harmoniously integrated with the principles of Islamic finance. Furthermore, the study offers strategic recommendations to financial institutions, policymakers, and AI developers on the optimal utilization of AI technologies. These suggestions emphasize the importance of developing solutions that are not only Shariah-compliant but also uphold the highest standards of moral and ethical responsibility. By doing so, the study aims to guide stakeholders towards implementing AI in a manner that aligns with the ethical principles of Islamic finance while also advancing technological innovation.





A key aspect of our methodology involves the collection of primary data through interviews and focus groups. Participants were selected based on a purposive sampling strategy, targeting financial experts, Shariah scholars, and technologists from a variety of institutions that are pioneers in integrating AI within Islamic finance. This diversity ensures that the findings are comprehensive and reflect a wide range of perspectives and practices within the industry. Additionally, structured interviews were conducted using a semi-formal questionnaire designed to extract detailed information on the current applications of AI in interest-free finance, the challenges encountered, and the potential for future integration. The questions were formulated to elicit qualitative insights and quantifiable data essential for the comparative analysis.

In addition to interviews, extensive document analysis was conducted. This included a review of recent publications, white papers, and case studies pertaining to AI in Islamic finance. The selection criteria for these documents focused on their relevance to AI applications in financial technologies, their contribution to understanding Shariah compliance in digital transactions, and their impact on operational efficiencies within Islamic banks and financial institutions.

The data gathered from these diverse sources were analyzed using thematic analysis, which allowed for the identification of recurring themes and patterns. This method is particularly suited to qualitative research where complex interactions and behaviours are studied. The analysis was supported by software tools designed for qualitative data analysis, ensuring rigorous data handling and accuracy in the thematic identification process.

#### **4. As an Innovative Model for Interest-Free Finance: The Benefit Sharing Model**

The Benefit Sharing Model embodies a transformative approach in interest-free finance, leveraging artificial intelligence (AI) technologies to overcome existing inefficiencies and promote a more equitable distribution of financial benefits. This model, rooted in the principles of justice and mutual benefit, seeks to surpass the limitations of traditional interest-free financial instruments, such as murabaha, advocating instead for partnership-based models.

This innovative approach champions the strategic use of AI and big data to bolster efficiency within the interest-free finance sector. The integration of AI technologies in the Benefit Sharing Model signals a shift towards more dynamic and effective financial instruments applicable across various Islamic financial contracts. The model utilizes a comprehensive set of data, incorporating a range of financial metrics and indicators, to inform its AI algorithm. This diverse data integration facilitates nuanced financial analysis and decision-making, augmenting the model's overall effectiveness.

The foundation of the Benefit Sharing Model lies in the concepts of “maqâsîd-ı şeria” (the objectives of Islamic law), justice, benefit, and the avoidance of interest. It demonstrates both theoretical and practical viability, marrying traditional Islamic finance principles with contemporary technological advancements. Surden (2019) highlights the growing role of AI in legal interpretation and argumentation, a concept that resonates with the idea of *ijtihad* (independent reasoning) in Islamic law. This model reinterprets *ijtihad*, traditionally reliant on a limited set of factors, as a process that encompasses a broader data analysis through AI.

Overall, the Benefit Sharing Model offers a progressive fusion of AI into interest-free finance, potentially enhancing efficiency, fairness, and compliance with Islamic financial principles. Its emphasis on extensive data utilization and AI technologies positions it as a trailblazing model within the sector.

##### *4.1. The Data Set Groups of The Benefit-Sharing Model*

The Benefit Sharing Model employs a sophisticated machine-learning algorithm designed for effective data analysis and processing. Unlike traditional programming algorithms, which operate on binary "yes" or "no" logic, machine learning algorithms learn from data, continuously refining their ability to process information (Alpaydın, 2020). This adaptability allows them to perform complex computations in decision-making processes, efficiently handling various variables.

This capability mirrors the concept of autopoiesis (Kılıç, 2020), a form of intelligence that evolves from continual information processing, akin to the human brain's ability to process diverse data types and produce independent decisions. Unlike statistical methods that simulate data sets to produce outputs, machine-learning algorithms discern patterns and connections within data, enabling them to make inferences about previously unseen situations (Kruse et al., 2013; Alpaydın, 2020).

The Benefit Sharing Model's algorithm is built on this advanced computational approach. It's designed to handle operations based on multivariate parameters, with the effectiveness of the algorithm hinging on the quality of data sets fed into it. The



algorithm is trained using various data set groups, which helps it learn the interconnectivity between these sets, thereby enhancing its future computational performance.

The data set groups utilized in the Benefit Sharing Model Algorithm are:

- Constant Functions Data Sets
- Variable Functions Data Sets
- Financial Decision Outputs
- System Memory Database

These data set groups are detailed in Figure 1 and Table 1. The algorithm is tailored to specialize in specific fields and sectors by feeding relevant data sets. For accurate decision outputs, all influencing elements included in the model are meticulously detailed in Table 1. These elements are categorized into sub-sections and presented in tables under corresponding headings. The weight values in Table 1 are sample values, emphasizing the model's flexibility.

A key aspect of this model is its ability to conduct multi-data computations tailored to specific objectives using machine learning. Ensuring the algorithm is supported with precise data throughout the training process is crucial for its efficacy. The capacity to adapt data sets in line with objectives, to incorporate up-to-date and real-time information, and to learn from errors highlights the dynamic nature of the machine learning algorithm in this model. Consequently, the data sets and their impact weight values are designed to be adaptable to align with the evolving needs of the algorithm.

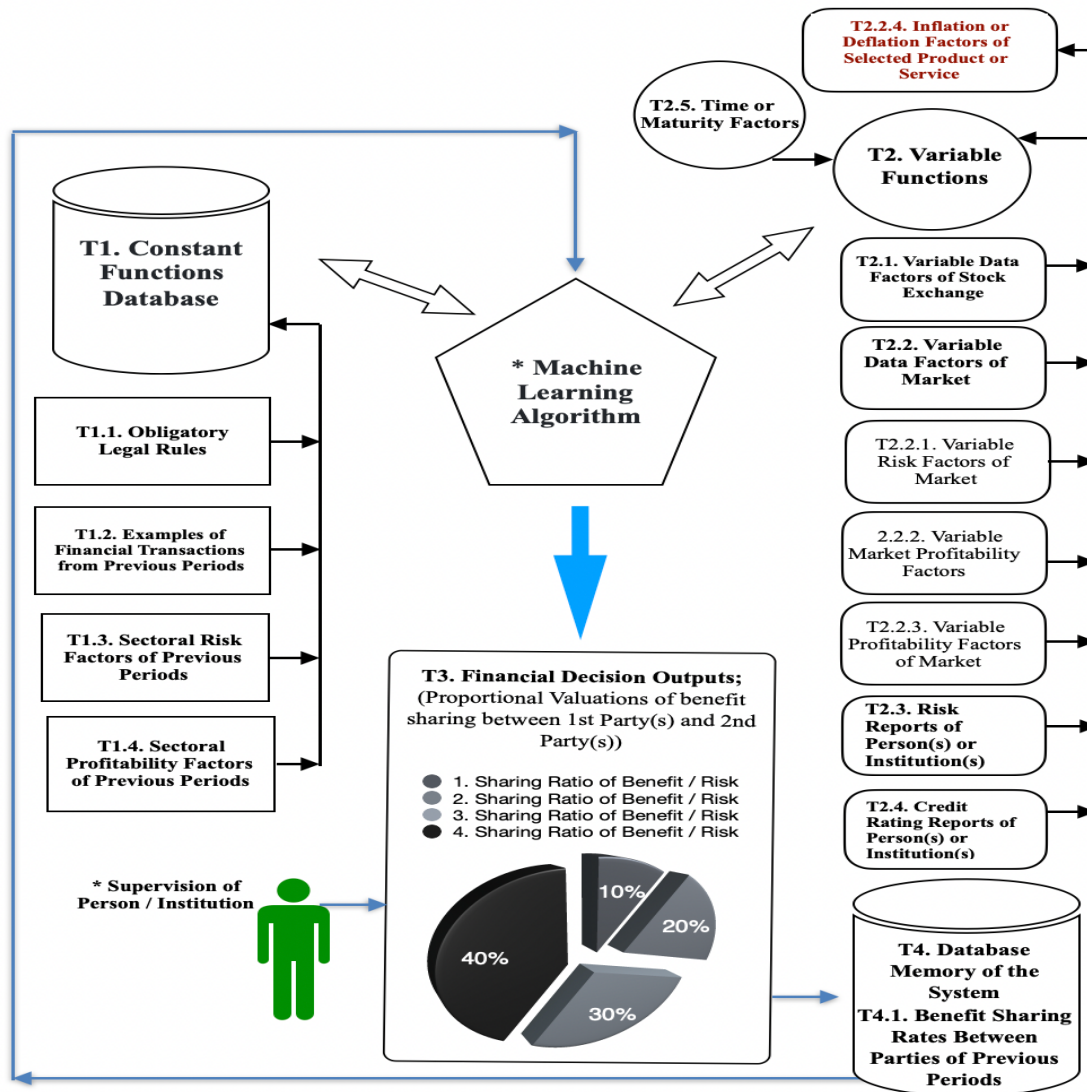


Figure 1. Dataset Groups of The Benefit Sharing Model (Sample). Source: Authors' elaboration





	<b>DATA SET GROUPS (SAMPLE) (To Be Included in the Machine Learning Process)</b>	<b>Effect of Weight Ratio (%)</b>
	<b>Data Set Groups</b>	<b>101,12</b>
<b>T1.</b>	<b>Constant Functions Database</b>	<b>32,40</b>
<b>T1.1.</b>	<b>Obligatory Legal Rules</b>	<b>10,00</b>
<b>T1.2.</b>	<b>Examples of Financial Transactions from Previous Periods</b>	<b>10,00</b>
<b>T1.3.</b>	<b>Sectoral Risk Factors of Previous Periods</b>	<b>6,20</b>
<b>T1.4.</b>	<b>Sectoral Profitability Factors of Previous Periods</b>	<b>6,20</b>
<b>T2.</b>	<b>Variable Functions</b>	<b>63,62</b>
<b>T2.1.</b>	<b>Variable Data Factors of Stock Exchange</b>	<b>5,60</b>
<b>T2.2.</b>	<b>Variable Data Factors of Market</b>	<b>29,7</b>
T2.2.1.	Variable Risk Factors of the Market	5,6
T2.2.2.	Variable Market Profitability Factors	9,00
T2.2.3.	Variable Profitability Factors of Selected Product(s) / Service(s)	6,00
T2.2.4.	Inflation or Deflation Factors of Selected Product(s) / Service(s)	9,10
<b>T2.3.</b>	<b>Risk Reports of Person(s) or Institution(s)</b>	<b>5,5</b>
<b>T2.4.</b>	<b>Credit Rating Reports of Person(s) or Institution(s)</b>	<b>16,12</b>
<b>T2.5.</b>	<b>Time or Maturity Factors</b>	<b>6,70</b>
<b>T3.</b>	<b>Financial Decision Outputs (Benefit Sharing Ratios Between Parties)</b>	<b>2,50</b>
<b>T4.</b>	<b>Database Memory of The System</b>	<b>2,60</b>

Table 1. *Dataset Groups of The Benefit Sharing Model (Sample)*. Source: Authors' elaboration



## 5. Use of the Benefit Sharing Model in the Interest-Free Finance Sector: Digital Model Proposals

The market, a fundamental economic entity, serves as a platform where buyers and sellers engage in the exchange of goods and services, encompassing various financial markets like money and capital markets. In the realm of interest-free finance, adherence to Shariah principles introduces complexities, necessitating financial instruments that meet both ethical and religious standards. This often leads to debates about the suitability of specific financial tools under contemporary conditions (Ahmed, 2020).

Fintech firms have revolutionized the financial sector with innovative technology, facilitating swift credibility evaluations, risk analyses, and broad market penetration. These advancements are particularly significant in interest-free finance, where ethical considerations and Shariah compliance are paramount (Jensen & Harlow, 2021; Alam et al.). Fintech has led to the creation of agile financial models that align with the ethical-moral parameters of interest-free systems (Greenwood, 2022).

Technological advancements have led to the development of digital and smart contracts, especially relevant in the interest-free finance sector. These blockchain-supported agreements offer enhanced transparency and security while adhering to Shariah principles, marking a departure from traditional financial contract structures (Farooq & Patel, 2022; Wilson & Abdullah, 2024).

The Benefit Sharing Model presents a responsive approach within the digital landscape of interest-free finance. It proposes a reinterpreted and restructured version of classical financial instruments using modern technology. Grounded in AI, cloud computing, and blockchain technology, the model addresses ethical concerns and introduces a reengineered technical solution (Khan, 2022; Farooq & Patel, 2022). Its primary objective is to leverage cutting-edge technologies to enhance legal and financial effectiveness while upholding Islamic financial principles and ethical standards (Greenwood, 2022; Wilson & Abdullah, 2014).

Incorporating the Benefit Sharing Model into digital platforms is a pivotal step in the field of interest-free finance. It addresses current challenges while opening avenues for innovation and development. The model's adaptability to evolving technologies like AI and blockchain heralds a future of efficient, secure, and ethical financial transactions compliant with Shariah law. Its implications extend beyond the present, offering insights and a foundation for future research in ethical, technology-based finance.

## 6. Digital Interest-Free Financial Model Proposals Based on Smart Contracts

For the technical infrastructure of interest-free finance models based on smart contracts to be operational, parties involved in financial interactions need to connect to the relevant platform. This design, termed the system interface, enables users to interact within the system. The digital model proposals, emerging from the application of the Benefit Sharing Model to various interest-free finance instruments, are accessed and interacted with through this system interface. Additionally, the blockchain platform, essential for creating smart contracts, forms the technical backbone of the model. Users initially access the system interface to evaluate the terms and conditions of smart contracts. The Benefit Sharing Model plays a crucial role in this agreement process by offering the parties the most suitable benefit and risk ratios. Once an agreement is reached, the parties engage in financial interaction through the execution of smart contracts.

The implementation of the Benefit Sharing Model utilizes cloud computing services, including 1. Infrastructure as a Service (IaaS), 2. Platform as a Service (PaaS), and 3. Software as a Service (SaaS). However, recording and operating these technical capabilities via smart contracts are facilitated using blockchain technology. In this context, the technological foundation of the model proposals in this section is envisaged as a hybrid method (Blockchain as a Service, BaaS) that integrates cloud computing technical infrastructure with blockchain systems.

Users connecting to the relevant platform to utilize one or several interest-free financial model proposals can engage in financial interaction through the system interface. This interface can be designed with various features to be informative, directive, and managerial based on the characteristics of the financial model used and the demands and expectations of the user parties. Next-generation financial technology companies have made significant strides in designing interfaces that can analyze customer profiles and provide optimal guidance in decision-making processes. These interfaces are crucial operational layers between the users and the model (Sankar, Amudha, Madhavan, & Lamba, 2021). This area, particularly in the context of robo-advisory like portfolio optimisation, continues to grow in importance (He, Romanko, Sienkiewicz, Seidman, & Kwon, 2021: 2).

This approach, using the Benefit Sharing Model data sets as the base algorithm and designed according to the technical capabilities of the smart contract model, is evaluated based on four fundamental model differentiation criteria. These are: 1.

Participation Models Based on Smart Contracts, 2. Smart Contract-Based Bey' (Sale) Models, 3. Smart Contract-Based Ijarah (Rent) Models, and 4. Smart Contract-Based Savings Models. These models have been assessed with two different sub-headings within each category. Parties wishing to access Interest-Free Financial Models Based on Smart Contracts can benefit from this model through the system interface. As shown in Figure 2, this interface is the application software that facilitates the delivery of the model's technical capabilities to the user parties. The addition of the term "smart" to the titles of classic interest-free financial applications refers to each model proposal being designed based on blockchain-based smart contract models.

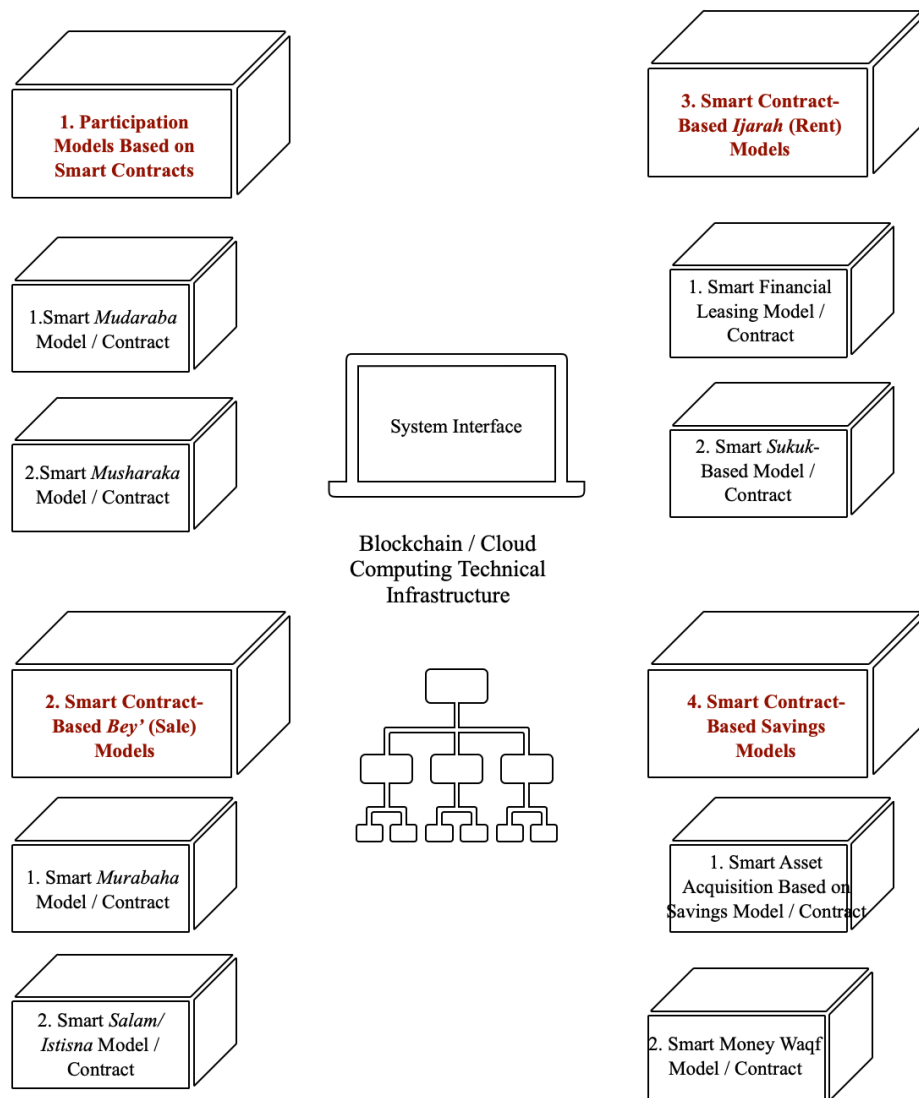


Figure 2. *Smart Contracts System Interface of the Benefit-Sharing Model. Source: Authors' elaboration.*





## 7. Conclusion

This study has thoroughly examined the integration of artificial intelligence technologies into the interest-free finance sector, focusing particularly on the Benefit Sharing Model. This model distinguishes itself as adaptable and versatile, well suited for a range of digital platforms, cloud computing systems, and blockchain technologies, all customized for interest-free finance. It addresses various challenges faced by the sector, offering innovative solutions for contracts and transactions that have been subject to criticism. By incorporating advanced technologies, the model enhances the efficiency and effectiveness of financial instruments and processes, thereby enriching the overall capability and capacity of the sector.

The literature indicates significant potential for AI technologies to reshape and advance the interest-free finance sector. However, this integration requires careful navigation to ensure adherence to both technological and ethical standards, particularly those of Shariah compliance. Future research should continue exploring these intersections, focusing on innovative, ethical, and compliant AI solutions.

The transformative role of Fintech in interest-free finance, particularly in terms of Shariah compliance, was explored, highlighting the pivotal advancements in digital and smart contract technologies. The Benefit Sharing Model uses these technologies to offer enhanced transparency and security, aligning with Islamic financial principles. Central to this model is the aim to achieve high social benefit (*maslaha*). The model is structured to foster fast and secure financial relationships, balancing mutual interests and risks between stakeholders on both the supply and demand sides of financial relations. Thus, it contributes significantly to the development of innovative, interest-free financial products. Incorporating these fundamental principles into the computation and analysis process through machine learning underscores the study's primary claim: facilitating interest-free transactions and producing accurate financial forecasts. This model is applicable to all Islamic financial contracts, providing a comprehensive solution in the field.

In its digital implementation, the Benefit Sharing Model signifies a major advancement in redefining interest-free finance. It restructures classical financial instruments using modern technologies such as AI, cloud computing, and blockchain, addressing current challenges and opening doors for future innovation and development. A key advantage of The Benefit Sharing Model is its adaptability to different contract types within the interest-free finance sector. This adaptability allows parties in financial interactions to operate without the need for intermediary financial institutions. Consequently, the model can be applied across various domains such as crowdfunding, peer-to-peer (P2P) financial interactions, business-to-business (B2B), business-to-consumer (B2C), and customer-to-customer (C2C) transactions within the burgeoning interest-free finance sector.

The study's exploration into digital interest-free financial models based on smart contracts provided insights into operationalising these technologies. The system interface and blockchain platform are integral to this approach, facilitating user interaction and smart contract management.

Moreover, the implications and applications of the Benefit Sharing Model have a profound positive impact on the interest-free finance ecosystem. It ensures the compatibility of Islamic finance instruments with new and future financial technologies, enhancing the sector's ability to meet evolving financial needs while adhering to Islamic principles.

In conclusion, the Benefit Sharing Model emerges as a significant advancement, offering a forward-looking approach to financial transactions in alignment with Islamic finance principles. The model enhances the sector's current capabilities and lays a foundation for its sustainable growth and adaptation to future technological innovations. This approach sets a new standard in the industry, paving the way for continued innovation and research in ethical, technology-based finance.

The application of the "Benefit Sharing Model" within interest-free financial institutions has been transformative, enhancing operational efficiency and compliance with Shariah principles (Khan, 2023). The integration of AI has enabled nuanced risk assessments and real-time product customization, which is critical for adapting financial services to meet dynamic customer needs while adhering to Islamic ethical standards (Alam et al., 2021).

This study's findings have broad implications that ripple across academic fields, industry practices, and societal norms. Academically, the research catalyzes further exploration into the application of AI within traditional financial systems, suggesting an interdisciplinary approach combining technology, finance, and ethics (Williams & Patel, 2020). Practitioners can apply the "Benefit Sharing Model" to develop Shariah-compliant financial products that adhere to Islamic principles and compete effectively in the global market (Greenwood, 2022).

The societal benefits of this research are significant, particularly in fostering financial inclusivity by aligning modern financial practices with Islamic ethical standards, potentially increasing financial participation among Muslim communities (Ahmed, 2020). Such inclusivity is pivotal for promoting wider economic stability and growth (El-Gamal, 2006).



The integration of AI in interest-free finance necessitates ongoing research into its long-term impacts, particularly concerning consumer trust and regulatory frameworks (Farooq & Patel, 2022). Future studies should assess the implications of AI on customer satisfaction within Islamic banks and explore necessary regulatory innovations to support the sustainable adoption of AI technologies (Johnson & Zhao, 2018).

In conclusion, the “Benefit Sharing Model” enriches the discourse on AI within interest-free finance, providing a foundation for subsequent technological and financial innovations. Continued exploration of this intersection is essential, ensuring that technological advancements remain congruent with interest-free finance's ethical mandates, reinforcing the commitment to justice and equity (Kılıç, 2020; Surden, 2019).

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# Is the ‘Riba’ Identical to Bank Interest? Towards Understanding the Quranic Term ‘Ar- Riba’

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## Abstract

The Quranic term ‘ar-Riba’ is not explicitly defined in the Holy Quran or the Sunnah but has distinct characteristics in Quranic verses. It originates from the Arabic term ‘Raba,’ meaning ‘to grow’ or ‘to increase.’ Traditionalists and revivalists, adhering strictly to this literal meaning, equate ‘ar-Riba’ with contemporary bank interest, arguing that it is prohibited. This study challenges such interpretations by analyzing English translations of the Holy Quran from 1649 to 2023 using a quantitative approach with SAS. The findings indicate that the most accurate English equivalent of ‘ar-Riba’ is ‘usury,’ which inherently implies exploitation. Without this exploitative nature, equating ‘ar-Riba’ with bank interest is misleading. To reinforce these findings, the study examines Quranic commentaries, which align with this interpretation. Despite this, traditionalists, revivalists, and certain academic scholars strongly advocate for Islamic Banking and Finance (IBF), even though IBF institutions can be more costly than conventional banks. The \$4 trillion IBF industry is largely based on the assumption that ‘ar-Riba’ equates to bank interest. This paper critically evaluates the exploitative elements of ‘ar-Riba’ through the lens of social justice theory and scrutinizes IBF institutions using legitimacy theory. In conclusion, the study urges scholars to avoid literal translations of ‘ar-Riba,’ as Quranic verses have historically been interpreted within their contextual framework.

**Keywords:** Bank-interest; Usury; Prohibition; Traditionalist; Revivalist; Islamic-bank; Religious-rulings.

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## 1. Introduction

‘Ar-Riba’ or the ‘Riba’ is a Quranic term which refers to the lending system in practice during the period of jahiliya (the period preceding the revelation of the Holy Qur’an). Many traditionalists and revivalists interpret the term ‘ar-Riba’ as interest (e.g., Maududi, 2019; Usmani, 2002). It is noteworthy that certain academic scholars have also interpreted ‘ar-Riba’ as ‘bank interest’, perhaps due to a lack of attention. For instance, in a recent article, while the authors were elucidating the significance of the Quranic verse (2:275), they assert that “*Conventional banks primarily profit from Ribaa, and when you*



*deposit your money in a conventional bank, you indirectly contribute to their earnings. Moreover, if you receive interest on your savings, it constitutes Ribaa, which is strictly prohibited in Islam”* (Zaidi, Calandra, & Tarek, 2024, p.19).

Hence, as per the stance of certain traditionalists, revivalists, and academic scholars, if a financial institution extended a loan of one hundred thousand dollars to an individual to acquire a residence for their family, and subsequently, after a period of thirty years, the institution demanded an additional sum beyond the principal amount for which both parties initially agreed; this additional sum would be deemed ‘ar-Riba’, and consequently, it would be prohibited. It is against the divine principle that any party in the lending and borrowing process becomes a loser (Al Qur’an 2:279). It is a widely acknowledged fact that in the present era, gold coins or silver coins are no longer utilized as a form of currency; instead, fiat currency is prevalent worldwide, and its value diminishes over time due to inflation and other economic factors.

This paper argues that the English term ‘interest’ or ‘bank interest’ is an incorrect translation because many Islamic scholars translate ‘ar-Riba’ as ‘usury’ (e.g., Farooq, 2009; Nomani, 2002). There was disagreement among early Islamic scholars about the scope of the Quranic term ‘ar-Riba’ and whether all interest rates should be under the ambit of ‘ar-Riba’ or only exorbitant interest rates, but later most early Islamic scholars agreed to prohibit all interest rates (Martin, 2004). Recent research identified it as a legacy of Al-Jassas (died, 981 CE), an early Hanafi Islamic scholar, who is credited for attributing ‘ar-Riba’ to any interest, regardless of the rate. Zaman (2011, p. 223) states that *“those who equate riba with interest seek support from al-Jassas, who claimed that pre-Islamic Arabia practised a form of riba where money was lent at a predetermined sum over the principal amount”*. However, there is no substantial evidence that supports the arguments of certain traditionalists, revivalists, and academic scholars equating ‘ar-Riba’ with conventional bank interest. As per Farooq (2007), it has been posited that the term ‘ar-Riba’ was not associated with excess loan repayments in the discourse of Islamic scholars prior to Al-Jassas. Furthermore, he asserts that Al-Jassas altered the definition of ‘ar-Riba’ which is in contradiction to the textual evidence cited. For centuries, certain traditionalists have imposed some strict restrictions through their ruling among Muslims, in dealing with lending and borrowing involving interest. Certain revivalists and academic scholars continue to endorse those rulings, disregarding the call from modernists to conduct a critical and objective examination of the matter.

Islamic history is proud to have numerous highly esteemed traditionalists and revivalist intellectuals who have contributed immensely to explaining many aspects of Islam. Nonetheless, as has been observed in numerous other religions in the past, it has been observed in Islam as well that certain rulings of the traditionalists in various matters have been deemed controversial due to the human being’s vulnerability to errors. These errors incurred significant negative impacts on Muslims in terms of education and scientific advancement and subsequently led to a socio-economic-political and cultural downturn.

Despite extensive research into the topic of ‘ar-Riba’, a large body of research is aligned with traditionalist and revivalist interpretations. A critical analysis challenging the status quo regarding the prohibition of bank interest within Islam is under-explored. This study contributes to the body of knowledge by examining this under-explored topic from an unconventional perspective to find answers using a different lens. To the best of the author’s knowledge, the analysis of 374 years of data to determine the most appropriate translation of the Quranic term ‘ar-Riba’ and providing lucid evidence to demonstrate how the English term ‘usury’ differs from the term ‘interest’ or ‘bank-interest’ is an unprecedented undertaking. Despite publicly available evidence indicating that a substantial majority of the authors who have translated the Holy Qur’an into English regard the Quranic term ‘ar-Riba’ as usury, it remains challenging to comprehend the rationale behind equating ‘ar-Riba’ with bank interest. The term ‘usury’ is associated with exploitation, whereas ‘bank-interest’ is not. Therefore, certain traditionalists, revivalists, and academic scholars may express disagreement with the findings; however, this paper cannot be regarded as a corner-case anomaly.

The rest of paper proceeds as follow. Section 2 will provide an overview of the academic literature related to the Quranic term ‘ar-Riba’, dealing with the failures of certain traditionalists on some occasions resulting in the backwardness of Muslim Ummah (community). Section 3 outlines the theoretical framework. In section 4, the research methodology, data collection process, purpose of the study, and scope of the study have been discussed. In section 5, four analyses have been conducted, and the results of these analyses are briefly discussed. Section 6 is the reflection section that provides further elaboration on the findings of the analyses. In section 7, issues related to the IBF system have been deliberated upon, and section 8 presents the conclusion. Finally, section 9 briefly discusses the implications, limitations, contributions, and future research directions. The subsequent section of this paper presents a literature review that scrutinizes recent research conducted on the subject matter, presenting a comparable perspective to this study. Additionally, it provides examples of how human interpretation errors can adversely impact advancement.





## 2. Literature review

Among Islamic scholars, there is a divergence in perspectives on this topic. It is noteworthy that a significant number of Islamic scholars do not consider the interest of conventional banks to be 'ar-Riba' or 'haram'. For instance, Dr. Muhammad Sayyid Tantawy, who was the Grand Mufti of Egypt, the Grand Imam of Al-Azhar University, and a former Professor of the Islamic University of Madinah, considered conventional bank interests to be 'halal'. Tantawy holds the belief that there is nothing in the Holy Qur'an or the 'Traditions of the Prophet' that prohibits the pre-fixing of the rate of return, if it is carried out with mutual consent and in a 'halal' investment (Khan, 2013; Khalil & Thomas 2006). Tantawy further clarified that interest-bearing bank deposits are perfectly Islamic and better than IBF accounts, which impose a disadvantageous term on the customer (Vogel & Hayes, 1998). Tantawy's opinion was echoed in the 2002 ruling issued by the Al-Azhar Institute of Islamic Jurisprudence (El-Gamal, 2000 & 2006). Moreover, Khan (2013, p.175) cites the comment of the Grand Mufti of Egypt, Dr Nasr Farid Wasil, "*So long as the investment is 'halal', there is no such thing as an Islamic or non-Islamic bank; so, let us stop this controversy about bank interest*".

In a TV show, Dr Ali Gomaa, a Grand Mufti of Egypt, states that the four Imams (i.e., al-Shafii, Ibn Hanbal, Malik and Abu Hanifah) believe that usury is restricted to gold and silver, while banks deal with money (fiat money). According to him, bank interest is different from usury, and the relationship between individuals and banks is not based on loans but on financing and investment (Hussein, 2015). The Chief Justice of Egypt, Said al-Ashmawi, asserts that interest charges imposed by the contemporary banking system do not fall within the purview of 'ar-Riba' (Khan, 2013; Visser, 2009). Abd al-Razzaq al-Sanhuri, a prominent law expert in the Arab world and author of the constitutions of Egypt, Iraq, Kuwait, Libya and Syria, contends that prohibition of 'ar-Riba' on simple interest rates could be lifted, but not for the compound interest rate (Badawi, 2000, Khan, 2013; Khalil & Thomas, 2006).

Khan (2013) asserts that in addition to scholars of Arab origin, a significant number of prominent Islamic scholars of Asian origin do not associate the term 'ar-Riba' with contemporary conventional banking interests, as elucidated in their academic writings. Among them some prominent names are in the following: Ja'far Shah Phulwari (1959), Tamanna Imadi (1965), Rafiullah Shihab (1966), Yaqub Shah (1967), Abdul Ghafur Muslim (1974), Syed Ahmed (1977), Aqdas Ali Kazmi (1992), and Abdullah Sayeed (1995 & 1996). Abdullah Yusuf Ali, a renowned English translator of the Holy Qur'an, defines 'ar-Riba' as undue profiteering of all kinds, excluding the economic credit from the modern-day banking system (Khan, 2013). Another prominent Islamic scholar, Fazlur Rahman (1911-1988), defines 'ar-Riba' as "*an exorbitant increment whereby the capital sum is doubled several-fold, against a fixed extension of the term of payment of the debt*" (Rahman, 1964, p.40). Visser (2009) asserts that the leading Muslim organization of Indonesia (Nahdatul Ulema), in their ruling in 1938, states that bank interests are permissible as they are beneficial to society. The 'Fatwa' (religious ruling) Committee in Britain (2017), which is affiliated with the European Council for Fatwa and Research, issued a 'Fatwa' number (6/5) titled 'buying a house through banks. The 'Fatwa' states that under certain conditions, owning a house through banks is considered a general need (In Arabic: 'Hajah') and should be treated as a necessity (In Arabic: 'Darurah').

Balala (2011) contends that the Holy Qur'an has prohibited inequity and inefficiency in commercial transactions. In the event of a commercial transaction involving inequity, it would come under the purview of prohibited 'ar-Riba'. Balala (2011, p. 87) defines 'ar-Riba' as, "*if there is an inequitable and inefficient gain then it would be called 'ar-Riba'*". She also provides a definition of an inequitable and insufficient gain. According to her, a regulated and competitive market defines it, and the rate offered in a regulated and competitive market is equitable and efficient. Anything above the market rate would be inequitable and inefficient; hence based upon her analysis, in the modern-day banking system, interests are not 'ar-Riba' because it is competitive and regulated by the market, thus equitable and efficient. On the contrary, certain instances of 'ar-Riba' in contemporary times can be cited, including but not limited to unregulated financial transactions at the personal level, where any gain would be deemed as 'ar-Riba'. The interest rates imposed by microfinance organizations, such as Grameen Bank, which, in some cases, charge up to 80% of the interest rate, thus falling under the purview of 'ar-Riba' (Khan, 2013). Moreover, certain credit card companies that charge an annual interest rate of 20% - 30% are guilty of usury. Based upon the argument, Khan (2013, p.177) opines that "*A logical conclusion of this line of argument is that there is no need for anything known as 'Islamic finance'*".

It is imperative for every individual and society to learn from their past mistakes. The novel invention of the printing press in 1436 CE was comparable to the invention of the internet today, which rapidly spread throughout Europe and even reached regions such as Mexico, Tahiti, and Hawaii. During that period, the Islamic world was ruled by the Ottoman Empire. In 1508 CE, the highest religious authority of the Ottoman Empire issued a religious ruling (fatwa), prohibiting the use of printing



press for Muslims. Later based upon this ruling, in 1515 CE, Sultan Selim I issued a decree in favour of this ban. This ban remained effective for more than three centuries. Due to the inaccessibility of printed books for more than three centuries, Muslims have gradually developed a significant knowledge gap in comparison to other Abrahamic religions. The effect of this unfortunate ruling is still haunting the Muslim Ummah all over the world. Rubin (2017) examines in his book why the Middle East, which was far ahead of Europe for centuries following the spread of Islam in terms of socioeconomic and cultural development, was left far behind. Based on the historical records, his assessment is that due to the political bargaining power of religious authorities, traditionalists' rulings prohibiting bank interest and prohibiting the use of the printing press caused immense damage in terms of socioeconomic and cultural development.

Juma (2016), in his book, explores why people resist new technologies. According to his findings, it appears that in 1485 CE, Sultan Bayezid II issued an edict prohibiting the printing of books in Arabic. Moreover, he even prohibited the import of books printed in Europe into the Ottoman lands. Ghitreef (2022) criticized the religious authorities in the Ottoman Empire for preventing the importation of printing presses from Europe for nearly three centuries, implying Muslims' disinclination toward education. Qadhi (2012) asserts that one of the primary reasons for the stagnation of the Muslim world during Europe's ascent was the prohibition of the printing press. He further adds that there was a time when the Ottoman Sultan issued a decree that anyone caught with a printing press would be executed for heresy, and anyone who owned a printed book would be effectively imprisoned. So, for a period of 350 years, during which Europe printed the works of Descartes, Galileo, and Newton, the sole means by which an individual could obtain a copy of any book in the Muslim world was through the process of handwriting it themselves. Qadhi (2012) even suggests that it is likely that the printing book ban was linked to the loss of traditionalists' influence, as everyone will have a printed book in their household. Consequently, the monopolistic authority to possess a handwritten book and impart knowledge to a multitude of students will be forfeited. Similarly, Mian (2017) argues that some rulings (fatwa) in the past by traditionalists suggest that the use of loudspeakers invalidates the ritual prayer of the congregant. In the following section, the theoretical framework will be established.

### 3. Theoretical framework

This paper will employ the lenses of two theories, specifically social justice theory and legitimacy theory. The prohibition of 'ar-Riba' will be examined through the prism of social justice theory, while the IBF institutions will be scrutinized through the lens of legitimacy theory.

#### 3.1 Social Justice Theory

Social justice theory advocates for the establishment of a just and equitable allocation of resources, opportunities, and privileges, within society. It argues for fairness in society and equitable allocation of resources and considers social justice to be a moral obligation for people within a society to work for the common good. For a significant portion of its history, social justice has been a religious concept that found its root in all Abrahamic religions. The term 'social justice' was initially coined in academic discourse in the 1840s by Luigi Taparelli, an Italian scholar, in his essay, "*Theoretical Treatise on Natural Right Based on Fact*". Taparelli contends that individuals ought to adhere to moral principles derived from natural theology and religion (Behr, 2019).

Social justice in Islam holds such great significance that the second caliph of Islam, Umar al-Khattab, in contravention of the verse of the Holy Qur'an (5:38), refrained from cutting off the hands of thieves, believing that the punishment was unjust and violated the principle of social justice in the context of a famine (Ishaq & Ridwan, 2023; Abd al-Razzaq, Musannaf n° 18371). The verses of the Holy Qur'an provide guidance towards attaining human bliss, and its ethical and social admonitions necessitate meticulous consideration when inferring them, considering the surrounding environment. It would be unwise to impose the Islam of the sixth century in the contemporary setting. The Islamic faith places great emphasis on a profound commitment to social justice by holding that humanity is entrusted with the responsibility to consistently stand up against exploitation without fear of being intimidated by the powerful elements in society

In Islam, one important aspect of social justice is the elimination of economic exploitation of the weak by the strong. The Holy Qur'an discusses the term 'ar-Riba' in a total of four chapters, and in two chapters (4:161 & 3:130), it depicts the exploitation of the weak, which is one of the primary reasons why 'ar-Riba' is prohibited. In addition, Islamic social justice guarantees the fundamental necessities of life to the impoverished and advocates for a just and equitable distribution of wealth. Islam prescribes the basic principles of social justice and establishes the claim of poor to the wealthy rich, an example



of which is given in the verses of the Holy Qur'an (73:20), "*And establish regular prayer and give regular charity (zakat); and loan to Allah a beautiful loan*".

Scholars frequently derive the significance of a Quranic term, even if it is not explicitly defined, by scrutinizing its context. For instance, in the Quranic verse (30:39), the term 'ar-Riba' has been employed in opposition to the term 'zakat' or 'mandatory almsgiving' and similarly, in the Quranic verse (2:276), the term 'ar-Riba' has been employed in opposition to the term 'sadaqah' or voluntary almsgiving'. The doctrine of 'ar-Riba attempts to prevent the oppression of the impoverished and the exploitation of the needy, and it is rooted in social justice, as exemplified by the assertion of Khan (2024, p.109) that, "*The Qur'an describes riba as a vehicle of injustice and makes dealing in riba as unlawful*". The Holy Qur'an complements the emphasis placed on helping the impoverished prescribed by the doctrine of almsgiving through both sadaqah and zakat. Pejman (2019, p 17) argues that "*Implications of the doctrines of 'ar-Riba' and almsgiving need to be revisited by paying sufficient attention to the features of the contemporary world and the fact that they are inextricably linked*". Rahman (1964) inquires about the juxtaposition of 'ar-Riba' with 'trade' in lieu of 'sadaqah' and zakat by certain traditionalists and revivalists and contends that this confusion resulted in the substitution of '*juristic hair-splitting*' for the moral significance associated with the prohibition of 'ar-Riba'.

In the following Quranic verse (9:60), the term 'sadaqah' or 'voluntary almsgiving' has been employed to establish social justice, including freeing the debtors. "*The alms (sadaqah) are only for the poor and the needy, and those who collect them, and those whose hearts are to be reconciled and to free the captives and the debtors, and for the cause of Allah, and (for) the wayfarers; a duty imposed by Allah. Allah is Knower, Wise*". Therefore, the opposite of 'sadaqah' or voluntary almsgiving is the true essence of the term 'ar-Riba', which can also be referred to as un-freeing or entrapping debtors through exploitation. Following this analogy, it can be contended that in any commercial, social, or personal transaction, the association of exploitation could be deemed to be a violation of the fundamental principles of social justice in Islam.

This theoretical inference is shared and supported by numerous scholars. For instance, Faridah, El-Wafa, and Rizali (2024, p. 313) assert that, "*Furthermore, modern scholars use the maqashid al-shariah (objectives of Islamic law) approach to examine whether a financial transaction involves riba. They emphasize the importance of considering sharia objectives, such as social justice, welfare, and preventing exploitation. Therefore, if a transaction meets these principles, it cannot be immediately classified as riba. Thus, modern scholars define riba not merely as an increase in value but more as a principle of justice and balance in transactions*". The primary objectives behind the prohibition of 'ar-Riba' are to eradicate injustice or exploitation, inequality, and poverty, thereby establishing social justice (Al-Mubarak & Osmani, 2010). Suzuki (2019, p. 177) asserts that "*Because the Qur'an does not provide a specific reason for prohibiting interest or riba, the only rationale that can be derived from the Qur'an are verses related to 'exploitation' or 'injustice'*". He further argues that "*The principle of prohibiting riba should be argued not only from the perspective of shariah-compliance but also from the benchmark of raf alharaj, which in this context means prohibiting 'exploitation' for the purpose of benefiting the public and realising social justice*" (p. 186).

Furthermore, Islam safeguards the weak against economic exploitation by the powerful, as exemplified by the verses of the Holy Qur'an (70:24-25), "*And in whose wealth there is a right acknowledged...For the beggar and the destitute*". Qutb (1956) asserts that to understand the concept of social justice in Islam, it is imperative to first examine the Islamic theory of the universe, life and humanity; "*For social justice is only a branch of that great science to which all Islamic studies must refer*" (Qutb 1956, p.17).

### 3.2 Legitimacy theory

In the 21st century, organizations are expected to be an integral component of society. In addition to generating profits and expanding its business, it is imperative that it devises a strategy to aid the communities in which it has established and earning revenues. In this context, the legitimacy of an organization is directly linked to community expectations. Suchman (1995, p. 574) contends that "*legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions*." Banks certainly make a significant contribution by providing financing for both private and public development projects. This is the reason why banks have become an integral component of society and have gained legitimacy. Dowling and Pfeffer assert that (1975, p. 122) organizational legitimacy is "*a condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part*". However, if an organization deviates from the expectations of its social partner with which it has an unwritten 'social contract', the organization is subject to severe

sanctions from society, which may ultimately result in its demise. “*When a disparity, actual or potential, exists between the two value systems, there will exist a threat to organizational legitimacy*” (Dowling & Pfeffer, 1975, p. 1). This paper presents some strategies employed by IBF institutions in Section 7 to ascertain whether they have been successful or unsuccessful in gaining legitimacy among their social partners.

#### 4. Methodology

This study employs a quantitative and descriptive statistical approach using SAS to analyze and comprehend univariate data. The primary objective is to collect, process, and analyze a single type of variable, in this case, the Quranic term ‘ar-Riba’. Moreover, measures of frequency distribution are employed to delineate the occurrence of data within the data set, which is depicted through graphical representations. By adopting this approach, one can gain valuable insights into the data. The process consisted of four itineraries, namely data collection, data preparation or filtering of the data, descriptive analysis, and interpretation of results. This research relies on a combination of primary and secondary data gleaned from multiple sources. In the following Figure 1, a brief description provides further information about the data collection process, purpose, and scope of the study.

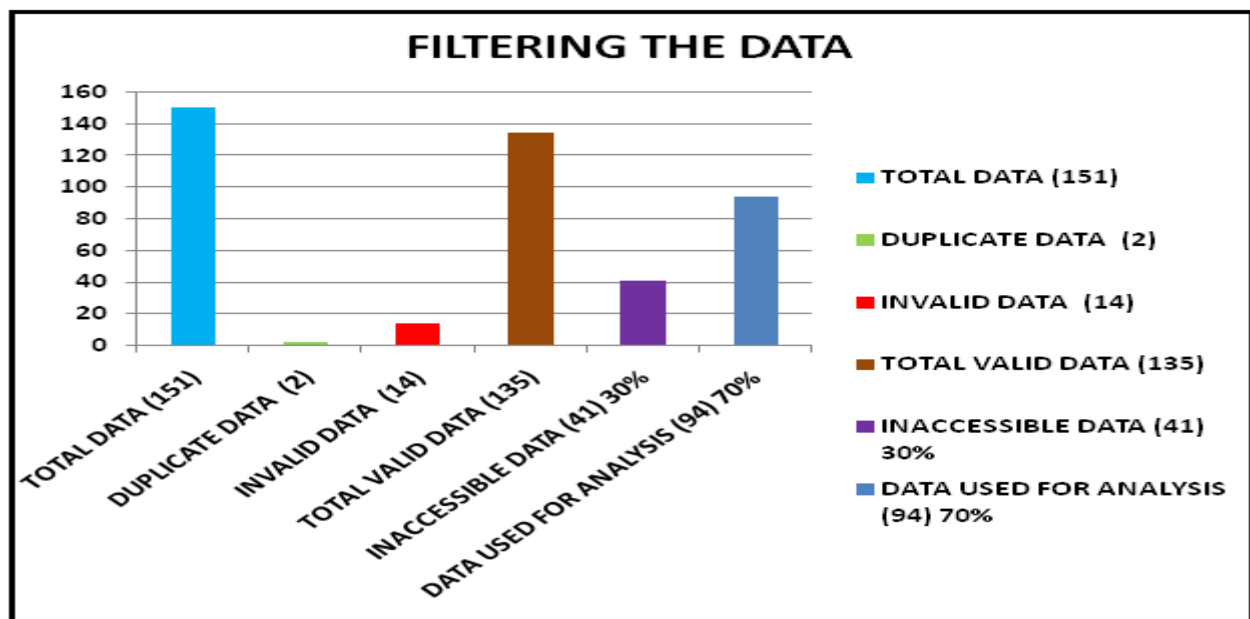


Figure 1. The data filtering procedure is illustrated. Source: Authors' elaboration

##### 4.1 Online desk research

The online desk research method is adopted to save time and cost. Initially, an extensive literature review has been conducted to comprehend current arguments and counterarguments regarding the Quranic term ‘ar-Riba’ in the literature. Then, online searches using various search engines have been conducted to find freely accessible English language translations of the Holy Qur’an. Multiple websites have provided a total of 151 versions of English language translations from different authors from the period of 1649 until 2023. The entire random dataset was utilized in this research as it was presented on those websites, except avoiding data duplication. An online search has also been conducted to find English language dictionaries to comprehend the differences between the term’s ‘usury’ and ‘bank interest’. Finally, the online and freely accessible English translation of the Holy Qur’an by Pickthall (1930) is utilized to scrutinize the divine texts pertaining to the Quranic term ‘ar-Riba’. The utilization of English translation is attributed to the fact that approximately 78% of the world’s Muslims reside in non-Arab speaking nations, and approximately one-third of Muslims hail from South Asia, where English is the predominant language (Pew, 2015).





## 4.2 Data collection process

All the data utilized in this study was obtained from publicly accessible sources. The data for the list of English language translations of the Holy Qur'an are collected from the website of the "Toronto Quran Exhibition March 2024" (academyofislam.com). There exists a list of approximately 151 English translations of the Holy Qur'an. Nonetheless, it is imperative to implement a filtering procedure to extract useful data. For instance, figure 1 illustrates the data filtering process adopted for this study. In the dataset, two of the entries are by the same authors, albeit with distinct editions (duplicate data), and 14 of them are not translated directly from Arabic. Therefore, 16 entries are discarded or considered as invalid. Moreover, out of the remaining 135 entries, 41 are not freely accessible, resulting in a loss of 30% of the valid data. In contrast, 94 entries represent 70% of the total valid data utilized in this study. An effort has been made to find some additional data free of charge, but it was not possible to find any new data from other websites. As the results obtained from the present dataset are unequivocal, the marginal utility of enhancing the size of the dataset is insignificant as it cannot substantially alter the outcome. It is noteworthy that the data collected from websites are random, as the author did not select the data based on predetermined criteria, thus avoiding any cherry-picking. Moreover, the topic of 'ar-Riba' appears to be impartial for both sectarian and non-Muslim translators. Therefore, all translations that are freely accessible are deemed valid.

## 5. Results

In the following, four analyses have been conducted to understand the true essence of the Quranic term 'ar-Riba'. The Quranic term 'ar-Riba' appears eight times in the Holy Qur'an, including five instances in Surah (chapter) Baqarah (from 2:275 to 2:280), and once each in Surah Ar-Rum (30:39), Surah An-Nisa (4:161), and Surah Al-Imran (3:130). In the first analysis (Table 1), 94 English translations of the holy Qur'an from different authors from the period of 1649 until 2023 were analyzed. In the second analysis, ten English language dictionaries were used to analyze and comprehend the meaning of the terms 'usury' and 'bank interest'. The third analysis presents an opportunity to examine the Quranic verses pertaining to the term 'ar-Riba', with the aim of comprehending the broader significance and contextual meaning of it. Finally, the fourth analysis is intended to obtain validation or confirmation from the 'tafsirs' or commentaries of the Holy Qur'an. The commentaries are selected based on specific criteria to ensure that they are representative of all-encompassing perspectives. Therefore, an analysis has been conducted on two classical tafsirs by Arab authors with distinct perspectives, as well as one contemporary tafsir by non-Arab authors.

### 5.1 Analysis 1

The aim of the first analysis is to determine how authors have translated the Quranic term 'ar-Riba' into English. Following the data filtering process, the outcomes obtained from the analysis of the translations of the Holy Qur'an, spanning from the period of 1649 until 2023, are presented in Table 1. The first column indicates the number of entries, and the second column lists the authors' names. The third column denotes the year of publication, and the designations 'M', 'NM', 'RM', 'SM', and 'AH' denote the respective designations of Muslim, non-Muslim, revert-Muslim, Shia-Muslim, and Ahmadiyya Muslim Jama'at. The sectarian distribution of the authors who have translated the Holy Qur'an into the English language is illustrated in Figure 3. The information regarding the author of entry n° 80 is unknown; therefore, the '??' has been utilized. The fourth column illustrates the English terms used for the Quranic term 'ar-Riba'. It is noteworthy to mention that the topic of 'ar-Riba' appears to be impartial for both sectarian and non-Muslim translators. Therefore, all translations that are freely accessible are deemed valid.

#### 5.1.1 Results of Analysis 1

The results depicted in Figure 2 represent a total of 94 translations, out of which 65 translations explicitly translate the Quranic term 'ar-Riba' as 'usury'. The entries n° 29 and n° 55 translate 'ar-Riba' as 'unlawful interest' and 'usurious interest', respectively, which is how the term 'usury' is defined in the Oxford dictionary. Therefore, these two entries are also considered to be 'usury', making the total count for usury to be 67. The results presented in Figure 2 unambiguously and unequivocally illustrate that 71% (Fraction avoided) of the authors consider 'usury' as the most appropriate English term for the Quranic term 'ar-Riba'. In contrast, out of 94 translations, only 13 entries or 14% of the authors used the term 'interest'.



In total, 12 authors used both terms ‘usury’ and ‘interest’, and even some authors added some additional terms (i.e., entries n° 36 and 37).

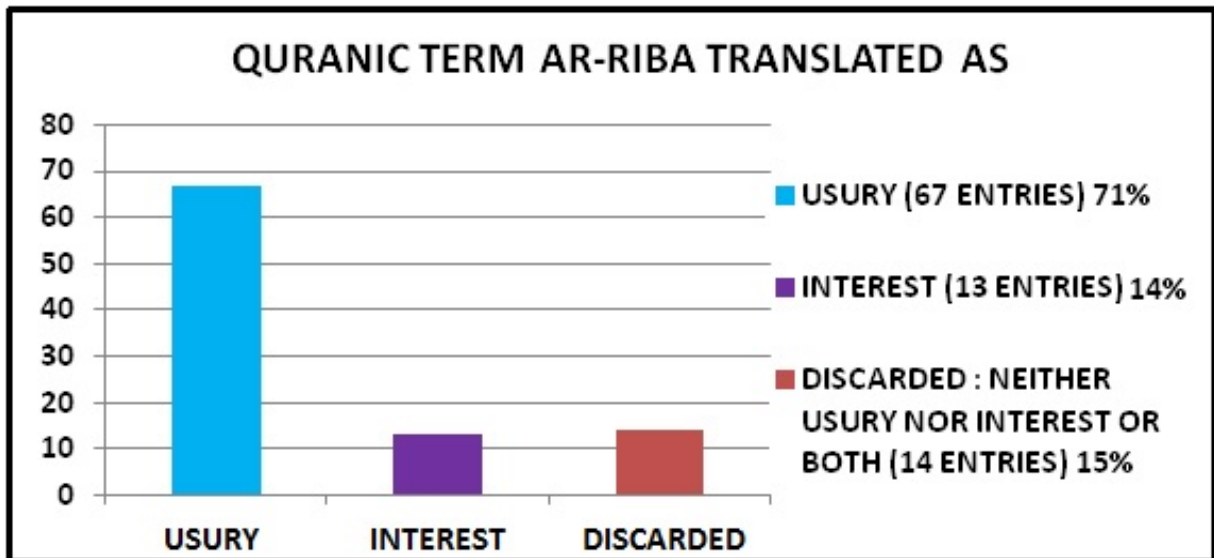


Figure 2. *The results of the analysis illustrate how the Quranic term ‘ar-Riba is translated into English. Source: Authors’ elaboration*



N°	NAME OF THE AUTHOR	YEAR	TERM USED	N°	NAME OF THE AUTHOR	YEAR	TERM USED	N°	NAME OF THE AUTHOR	YEAR	TERM USED
1	A. Ross	1649NM	Usury	33	S. A. Usmani	1991M	Usury, interest	65	Shaikh & Khatri	2007M	Usury
2	G. Sale	1734NM	Usury	34	M. Aneesuddin	1993M	Usury	66	W. Khan	2009M	Usury
3	J. M. Rodwell	1861NM	Usury	35	A. K. Himmat	1993M	Usury	67	U. K. Dakdok	2009NM	Interest
4	E. H. Palmer	1880NM	Usury	36	Ahmed & Ahmed	1994M	Usury, growth, interest	68	Y. Emerick	2010RM	Interest
5	M.A.H. Khan	1905M	Usury	37	G. A. Parvez	1996M	Riba, usury, interest	69	M. M. Khan	2010M	Usury
6	M. A. Fazl	1912M	Usury	38	M. M. Al-Ghali	1997M	Usury, interest	70	I. Ahmed	2010M	Usury
7	H. Dihalwi	1916M	Usury	39	M. F. A. Malik	1997M	Usury	71	N. Ahmed	2011M	Usury
8	M. Ali	1917AH	Usury	40	M. Fakhry	1997M	Usury	72	T. Al-Qadri	2011M	Usury
9	G. Sarwar	1929M	Usury	41	S. A. S. Ameli	1997SM	Usury	73	T. Itani	2012M	Usury
10	M. M. Pickthall	1930RM	Usury	42	S. International	1997RM	Interest	74	F. Drame	2014M	Usury
11	A. Y. Ali	1934M	Usury	43	S. V. Ahmed	1999M	Usury, interest	75	S. M. Bleher	2015M	Interest
12	R. Bell	1939NM	Usury	44	Bewley & Bewley	1999RM	Usury	76	S. Kakkas	2015M	Usury
13	A. M. F. Chinoy	1954SM	Usury	45	Z. Hoque	2000M	Usury	77	Mubarakpuri	2015M	Riba
14	M. S. Ali	1955AH	Interest	46	T. Winter et al.	2000RM	Usury	78	S. H. Nasr et al.	2015M	Usury
15	A. Arberry	1955RM	Usury	47	H. S. Aziz	2000M	Usury	79	M. Khattab	2015M	Interest
16	N. J. Dawood	1956NM	Usury	48	F. Nikayin	2000SM	Usury	80	S. Gerrans	2016??	Usury
17	A. M. Daryabadi	1957M	Usury	49	A. G. Parekh	2000M	Usury, interest	81	M. Munshey	2016M	Usury, interest
18	S. V. M. A. Ali	1964SM	Interest	50	Qaribullah & Darwish	2001M	Usury	82	J. D. McAuliffe	2017NM	Usury
19	M. A. H. Shakir	1974M	Usury	51	K. Omar	2002M	Usury	83	Muhammad et al.	2018M	Usury
20	P. Salahuddin	1969M	Usury	52	M. M. Ali	2003M	Usury	84	M. Hussain	2018M	Usury
21	M. G. Farid	1969AM	Interest	53	A. Q. Qarai	2003SM	Usury	85	A. Salahi	2019M	Usury
22	S. A. Latif	1969	Usury, Interest	54	S. Ahmed	2003M	Usury	86	L. I. Barte	2020RM	Usury
23	M. Z. Khan	1971AH	Interest	55	T. Cleary	2004NM	Usurious interest	87	Rowwad Center	2020M	Usury
24	M. H. Shakir	1989M	Usury	56	M. A. Haleem	2004M	Usury	88	W. B. Al-Amri	2020M	Usury
25	H. A. Ali	1974M	Usury	57	B. Moeinian	2005SM	Interest	89	A. Hulusi	2020M	Usury
26	Khan & Hilali	1977M	Usury	58	A. Hye	2006M	Usury, interest	90	Soliman et al.	2020M	Usury
27	M. Asad	1980RM	Usury	59	A. Unal	2006M	Interest	91	Irving & Hegab	2021M	Interest
28	R. Khalifa	1981M	Usury	60	T. Usmani	2007M	Riba	92	S. Mahdy	2022M	Usury
29	M. T. Sarwar	1982SM	Unlawful interest	61	L. M. Bakhtiar	2007RM	Usury	93	M. Mezyed	2023M	Usury
30	Ahmed Ali	1984SM	Usury	62	E. Yuksel et al.	2007M	Usury, interest	94	Monotheist group	2023M	Usury
31	T. B. Irving	1985RM	Usury, Interest	63	A. Z. Hammad	2007M	Usury				
32	Omar & Omar	1991AH	Usury, interest	64	A. H. Elias	2007M	interest				

Table 1. English translations of the Quranic term 'ar-Riba' mentioned in Surah 'Al-Baqarah'.  
Source: Quran.com, Tanzil.net, QuranEnc.com, Qurano.com, Islamawakened.com, Al-quran.info, Archive.org

Two authors (i.e., entries n° 60 and 77) did not translate the Quranic term ‘ar-Riba’ into English, even though one of them is an ardent advocate for equating ‘ar-Riba with bank interest (i.e., entry n° 60). Therefore these 14 entries (15%) are discarded and deemed invalid to attain clarity in the data. To understand what really the term ‘usury’ means in the English language and to further explore the true meaning of the term ‘interest’ or ‘bank-interest’, the following section will illustrate how ‘usury’ and ‘bank-interest’ terms are defined in reputed English language dictionaries (Table 2).

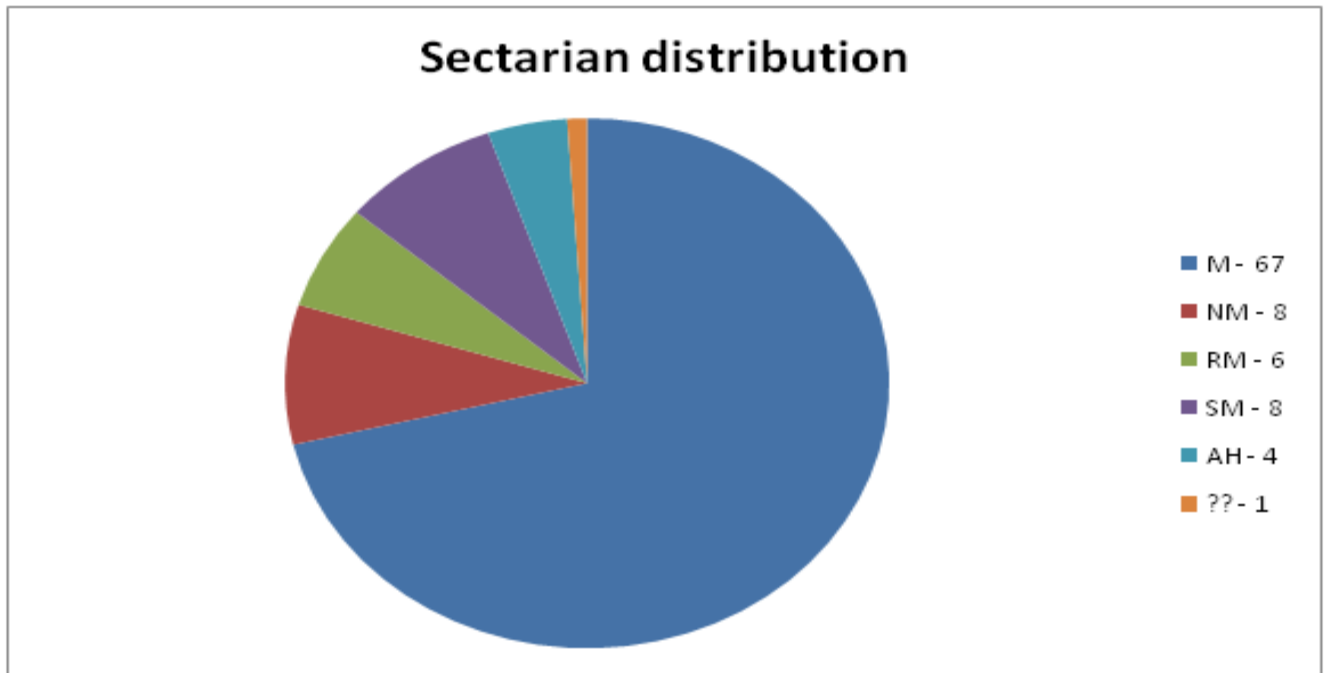


Figure 3. The sectarian distribution of the authors who have translated the Holy Qur'an into English is illustrated. The designations ‘M’, ‘NM’, ‘RM’, ‘SM’, ‘AH’, and ‘??’ denote the respective designations of Muslim, non-Muslim, revert-Muslim, Shia-Muslim, Ahmadiyya Muslim Jama’at, and unknown. Source: Authors’ elaboration

## 5.2 Analysis 2

Initially, the primary objective of the second analysis is to comprehend the significance of the terms ‘usury’ and ‘bank interest’ and, subsequently, to examine the distinctions between these two terms. In order to accomplish this objective, the definitions of the terms ‘usury’ and ‘bank interest’ are extracted from ten reputable dictionaries. In Table 2, the first column contains the names of the dictionary used, the second column shows the definition of the term ‘usury’, and the third column shows the definition of the term ‘bank interest’. The definitions of the term ‘usury’ are associated with certain adjectives in the second column, which are underlined.

### 5.2.1 Results of Analysis 2

After analyzing Table 2, it becomes evident that the ten dictionaries associated the term ‘usury’ with the following adjectives, i.e., ‘excessive’, ‘illegal’, ‘exorbitant’, ‘larger-amount’, ‘high-rate’, ‘high-amount’, ‘unfair’, and ‘unreasonable’. The adjectives found in this analysis fall within the ambit of the word exploitation. Now compiling some of the main adjectives from analyzing Table 2, the English translation of the Quranic term ‘ar-Riba’ may be defined as, “*usury is a kind of practice of lending money which is unfair, unregulated, and where the interest rate is unreasonably high*”.



DICTIONARIES	USURY	BANK INTEREST
1. OXFORD ENGLISH	<i>The fact or practice of lending money at interest; esp. in later use, the practice of charging, taking, or contracting to receive, <u>excessive or illegal</u> rates of interest for money on loan.</i>	<i>The extra money that you pay back when you borrow money or that you receive when you invest money.</i>
2. CAMBRIDGE ENGLISH	<i>The activity of lending someone money with the agreement that they will pay back <u>a very much larger amount</u> of money later.</i>	<i>Money that is charged by a bank or other financial organization for borrowing money.</i>
3. MERRIAM-WEBSTER	<i>The lending of money with an interest charge for its use, especially: the lending of money at <u>exorbitant interest rates</u>.</i>	<i>A charge for borrowed money generally a percentage of the amount borrowed.</i>
4. COLLINS ENGLISH	<i>Usury is the practice of lending money at a <u>high rate of interest</u>.</i>	<i>Interest is extra money that you receive if you have invested a sum of money. Interest is also the extra money that you pay if you have borrowed money or are buying something on credit.</i>
5. THE BRITANNICA	<i>The practice of lending money and requiring the borrower to pay a <u>high amount of interest</u>.</i>	<i>The money paid by a borrower for the use of borrowed money.</i>
6. THE AMERICAN HERITAGE	<i>The practice of lending money and charging the borrower interest, <u>especially at an exorbitant or illegally rate</u>.</i>	<i>A charge for a loan, usually a percentage of the amount loaned.</i>
7. LONGMAN BUSINESS	<i>When someone lends people money and makes them pay an <u>unfairly high rate of interest</u>.</i>	<i>An amount paid by a borrower to a lender, for example to a bank by someone borrowing money for a loan or by a bank to a depositor.</i>
8. WORD REFERENCE .COM	<i>The practice of lending money at an <u>unfairly high interest rate</u>.</i>	<i>Money paid or charged for a loan (often expressed as a percent).</i>
9. DICTIONARY .COM	<i>The lending or practice of lending money at an <u>exorbitant interest</u>.</i>	<i>A sum paid or charged for the use of money or for borrowing money.</i>
10. GOOGLE TRANSLATION	<i>The action or practice of lending money at <u>unreasonably high rates interest</u>.</i>	<i>Money paid regularly at a particular rate for the use of money lent, or for delaying the repayment of a debt.</i>

Table 2. The definitions of the terms ‘usury’ and ‘bank interest’ are extracted from ten dictionaries. Source: Authors’ elaboration

It is noteworthy that the emerging definition of ‘ar-Riba’ derived from analysis 2 indicates that only unregulated and exploitative types of lending systems can be ‘haram’ or prohibited. This emerging definition is significantly distinct from those provided by certain academic scholars who adhere to traditionalist and revivalist interpretations. For instance, reiterating the assertion made by Zaidi, Calandra, and Tarek (2024, p. 19), “Conventional banks primarily profit from Ribaa, and when you deposit your money in a conventional bank, you indirectly contribute to their earnings. Moreover, if you receive interest on your savings, it constitutes Ribaa, which is strictly prohibited in Islam”. It is evident that the exploitative nature and characteristics of the English word ‘usury’ are absent from their definition.

In relation to the term ‘usury’, in the following, the term ‘usurer’ will be used hence it is pertinent to define it here. In the context of this paper, usurers are those people who are lending money at an exorbitant interest rate. Usurers still exist in many parts of the world. Even half a century earlier, it was a common practice in rural areas of the Indian subcontinent, China, Malaysia, etc. In the ordinary English language, ‘usurers’ are called ‘loan sharks’ (Usurer-Loan Shark, 2024). The loan shark is defined as, “a person or an entity that loans money at extremely high interest rates and often uses threats of violence to collect debts. The interest rates are generally well above an established legal rate, and often loan sharks are members of organized crime groups” (Kagan, 2023, p.1; Simon, n.d.). If new generation university graduates have not heard of ‘loan sharking’ or ‘usury’ then they should read John Seidl (1971). He has written a doctoral dissertation on this topic at Harvard University. Seidl (1971, p.1) describes the situation of loan sharking in the U.S. as follows, “The street corner loan-shark racket of the 1920s and 1930s was known as the ‘six for five’ racket. ‘Six for five’ means that the interest on a \$5 loan for one week is \$1. Thus, if the borrower repays the principal and interest in one week, he hands back \$6. If he does not desire to repay the principal, he pays weekly interest, which is \$1 or 20% per week. That rate continues to be widely accepted for small loans. It is equivalent to 1040% per year”. If the situation in the U.S. in the 1920’s and 1930’s was like this then it is conceivable how bad it was in Arabia during the period of jahiliya. Moreover, Seidl (1971, p.1) describes the loan collection process, “A loan-shark organization’s reputation for violence and ruthlessness is the most important factor inducing borrowers to repay their loans”. In the following section, an analysis of the Quranic verses may help to reassess the proposed definition of the term ‘usury’.

### 5.3 Analysis 3

By examining the verses pertaining to ‘ar-Riba’ in the Holy Qur’an, one can gain a comprehensive understanding of its true significance and decipher the true essence of the divine message regarding this topic. Since the divine message about ‘ar-Riba’ has appeared eight times in four different Surahs (chapters), in the following the original Quranic verses with English translations are illustrated. The English translation provided by Pickthall (1930) is utilized in this analysis.

وَمَا آتَيْتُمْ مِّن رَّبٍّ لِّيَرْبُوَ فِي أَمْوَالِ النَّاسِ فَلَا يَرْبُوَ عِنْدَ اللَّهِ ۖ وَمَا آتَيْتُمْ مِّن زَكَاةٍ تُرِيدُونَ وَجْهَ اللَّهِ فَأُولَٰئِكَ هُمُ الْمُضْعِفُونَ

Figure 4. Surah Ar-Rum, verse 39 (30:39). Source: Holy Qur’an

English translation: “That which ye give in usury in order that it may increase on (other) people’s property hath no increase with Allah; but that which ye give in charity, seeking Allah’s countenance, hath increase manifold”.

The verse holds less significance in relation to the above definition of the term ‘usury’, despite providing some indications that ‘ar-Riba’ is disapproved of by the Almighty Allah. Maulana Wahiduddin Khan (2012), a renowned Islamic scholar, gave a brief description of this verse in his book ‘Tazkirul Qur’an’, in the following paragraph, “one sign of a believer is that he spends his wealth for the pleasure of Allah. So, he shares his wealth with other needy persons who may or may not be his relatives. He spends his wealth to reap the benefits of the Hereafter and not to earn profits in this world like a usurer”. Scholars frequently derive the significance of a Quranic term, even if it is not explicitly defined, by scrutinizing its context. For instance, in this verse, the term ‘ar-Riba’ has been employed in opposition to the term ‘mandatory almsgiving’ or ‘zakat’. Therefore, the opposite of ‘mandatory almsgiving’ or ‘zakat’ is the true essence of the term ‘ar-Riba’. Moreover, in another verse, the term ‘voluntary almsgiving’ or ‘sadaqah’ has been employed in the Holy Quran to establish social justice, including freeing the debtors (Al-Qur’an 9:60). These two verses indicate that the act of almsgiving is being utilized to counteract the adverse effects of ‘ar-Riba’, which may include trapping debtors through acts of exploitation.

‘Voluntary almsgiving’ or ‘sadaqah’ means giving something to someone without seeking a substitute in return, and with the intention of pleasing Almighty Allah. ‘Sadaqah’ refers to ‘voluntary almsgiving’, while ‘zakat’ refers to ‘mandatory almsgiving’. Some contemporary scholars hold the belief that the origin of the term ‘Sadaqah’ derives from the Hebrew term “Tzedakah”, which signifies almsgiving (e.g., Azim, 2016). Therefore, from the analysis of this verse (30:39), it can be gleaned that the Quranic term ‘ar-Riba’ has the essence of the following adjectives: ‘immoral’, ‘inhuman’, and ‘uncompassionate’. These adjectives possess the essence of exploitation, which is contrary to the fundamental principles of social justice in Islam.

وَأَخْذِهِمُ الرِّبَا وَقَدْ نُهُوا عَنْهُ وَأَكْلِهِمْ أَمْوَالَ النَّاسِ بِالْبَاطِلِ وَأَعْتَدْنَا لِلْكَافِرِينَ مِنْهُمْ عَذَابًا أَلِيمًا

Figure 5. Surah An-Nisa, verse 161 (4:161). Source: Holy Qur'an

English translation: "And of their taking usury when they have forbidden it, and of their devouring people's wealth by false pretences. We have prepared for those of them who disbelieve a painful doom".

The verse provides a more precise indication regarding the meaning of the Quranic term 'ar-Riba'. Initially, it is evident that the prohibition of 'ar-Riba' existed prior to the revelation of the Holy Qur'an. In fact, it was prohibited in all Abrahamic religions. Secondly, it provides an indication of the way the Quranic term 'ar-Riba' may be construed. Thirdly, it also elucidates the rationale behind the prohibition imposed by divine directives. During the period of jahiliya, lending money was unregulated and non-institutionalized. The lenders or the usurers consistently possessed the upper hand and imposed any conditions, often exploitative in nature, and whatever they deemed necessary on the debtors. In many cases, the usurers, through deceitful acts, try to devour vulnerable people's wealth and livelihood. In the event of a default by the debtor, the usurers used to have extortionate claims over the property of the debtor. The verse (4:161) characterizes such extortion as consuming people's property unjustly. Hence, from the analysis of the verse (4:161), it can be discerned that the Quranic term 'ar-Riba' possesses the essence of the following adjectives: 'deceitful', 'unfair', 'unjust', 'illegal', 'misleading', 'extortive'. These adjectives convey a sense of exploitation, which is contrary to the fundamental principles of social justice in Islam. Thus, it is evident that the definition of the Quranic term 'ar-Riba' is akin to those adjectives found in ten dictionaries.

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ

Figure 6. Surah Al-Imran, verse 130 (3:130). Source: Holy Qur'an

English translation: "O ye who believe! Devour not usury, doubling and quadrupling (the sum lent). Observe your duty to Allah, that ye may be successful".

The verse (3:130) exhibits the distinct characteristics of the Quranic term 'ar-Riba' while reiterating the notions derived from the preceding verse (4:161). During the period of jahiliya, credit agreements were not formally documented. The usurer had the discretion to impose any penalty, often exploitative in nature, in the event of default by the debtor. In certain instances, in the event of initial default, the debtor was required to reimburse twice the amount he borrowed at a subsequent date. If the bad times of the debtor persisted and if he defaulted again for the second time, the debtor had to pay quadruple the amount he borrowed later. During the period of jahiliya, the system of 'ar-Riba' inflicted misery on debtors through cruel and unjust acts of exploitation, oppression, and extortion. Based on the analysis of the verse (3:130), it is evident that the Quranic term 'ar-Riba' possesses the essence of the following adjectives: 'unfair', 'unjust', 'illegal', 'cruel', 'extortive', 'exploitative', 'oppressive'. These adjectives convey a sense of exploitation, which is contrary to the fundamental principles of social justice in Islam. Therefore, the definition of the Quranic term 'ar-Riba' is comparable to the adjectives cited in ten dictionaries.

الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا فَمَنْ جَاءَهُ مَوْعِظَةٌ مِنْ رَبِّهِ فَانْتَهَى فَلَهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ وَمَنْ عَادَ فَأُولَئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ

Figure 7. Surah Al-Baqarah, verse 275 (2:275). Source: Holy Qur'an

English translation: "Those who swallow usury cannot rise save as he ariseth whom the devil hath prostrated by (his) touch. That is because they say that trade is just like usury, whereas Allah permitteth trading and forbiddeth usury. He unto whom an admonition from his Lord cometh, and (he) refraineth (in obedience thereto), he shall keep (the profits of) that which is



*past, and his affair (henceforth) is with Allah. As for him who returneth (to usury) - Such are rightful owners of the Fire. They will abide therein”.*

In the case of ‘ar-Riba’, the Holy Qur’an adhered to a gradual approach to conveying its messages. The messages were gradually revealed and elaborated upon; for instance, verse (30:39), provided a hint about the term ‘ar-Riba’ by merely indicating that Almighty Allah disapproves of it, and the term ‘ar-Riba’ has been employed in opposition to the term ‘mandatory almsgiving’ or ‘zakat’. In the subsequent two verses (4:161 & 3:130), the Holy Qur’an elaborates on the concept of ‘ar-Riba’ in greater detail. Firstly, it explicitly states that the practice of ‘ar-Riba’ is prohibited, and secondly, it indicates certain distinct characteristics of the term ‘ar-Riba’ by portraying it as a cruel, unjust, deceitful, and illegal act. In the subsequent six verses of ‘Surah al-Baqarah’ (2:275 to 2:280), every effort has been made to dissuade the usurers from adhering to the system of ‘ar-Riba’ by providing them with a means of escape and subsequently announcing the repercussions for disobeying the divine directives. For instance, in this verse (2:275), the term ‘ar-Riba’ is employed in opposition to the term ‘trade’. This is because in trade, both the buyer and the seller are on an equal footing, and the practice of trading is typically free from any form of cruelty, exploitation, and extortion. Despite the absence of novel adjectives for the term ‘ar-Riba’ in this verse (2:275), the distinction between trading and ‘ar-Riba’ has become evident. The practice of trading is not considered unfair, unjust, illegal, cruel, extortive, exploitative, or oppressive. Therefore, it is permissible and encouraged.

**يَمْحَقُ اللَّهُ الرِّبَا وَيُرْبِي الصَّدَقَاتِ وَاللَّهُ لَا يُحِبُّ كُلَّ كَفَّارٍ أَثِيمٍ**

Figure 8. Surah Al-Baqarah, verse 276 (2:276). Source: Holy Qur’an

English translation: “Allah hath blighted usury and made almsgiving fruitful. Allah loveth not the impious and guilty”.

The verse (2:276) bears resemblance to the verse (4:161). However, it is presented in a more concise manner. In this verse again, the term ‘ar-Riba’ is employed in opposition to the term ‘almsgiving’, but more specifically, ‘voluntary almsgiving’ or ‘sadaqah’. However, it is clarified that usurers are individuals who commit sins, and any gains obtained from usury will be destroyed. The tone conveyed in this verse is somewhat stern, akin to a veiled warning attributed to the usurers. In this verse, it has become evident that voluntary almsgiving is a fruitful, gainful, enriching, nourishing, and beneficial act, while ‘ar-Riba’ is a disgraceful, destructive, accursed and bedevilled act. Furthermore, in another verse, the term ‘voluntary almsgiving’ or ‘sadaqah’ has been employed in the Holy Quran to establish social justice including freeing the debtors (Al-Qur’an 9:60). Therefore, from the analysis of this verse (2:276), it can be gleaned that the Quranic term ‘ar-Riba’ has the essence of the following adjectives: ‘immoral’, ‘inhuman’, and ‘uncompassionate’. These adjectives possess the essence of exploitation, which is contrary to the fundamental principles of social justice in Islam.

**إِنَّ الَّذِينَ ءَامَنُوا وَعَمِلُوا الصَّالِحَاتِ وَأَقَامُوا الصَّلَاةَ وَءَاتَوْا الزَّكَاةَ لَهُمْ أَجْرُهُمْ عِنْدَ رَبِّهِمْ وَلَا خَوْفٌ عَلَيْهِمْ وَلَا هُمْ يَحْزَنُونَ**

Figure 9. Surah Al-Baqarah, verse 277 (2:277). Source: Holy Qur’an

English translation: “Lo! Those who believe and do good works and establish worship and pay the poor-due, their reward is with their Lord, and there shall no fear come upon them neither shall they grieve”.

In this verse (2:277), there is no mention of ‘ar-Riba’, but the verse speaks about the identical subject matter. The message is directed towards those who are at the other end of the spectrum. Blessed is those who believe in divine directives and give up the wrong deeds (i.e., ‘ar-Riba’). Those who stay away from defying divine directives will be rewarded. This verse does not contain any new adjectives for the term ‘ar-Riba’.

**يَا أَيُّهَا الَّذِينَ ءَامَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنْتُمْ مُؤْمِنِينَ**

Figure 10. Surah Al-Baqarah, verse 278 (2:278). Source: Holy Qur’an



English translation: “O ye who believe! Observe your duty to Allah, and give up what remaineth from usury, if ye are (in truth) believers”.

This verse (2:278) appeals to the usurers in a polite and persuasive manner. They have been urged to give up the practice of ‘ar-Riba’ and, as a way out, it is recommended to keep the past earnings from ‘ar-Riba’ and forgive any anticipated earnings from the debtors. For the first time, an indirect reference regarding the debtors within the context of ‘ar-Riba’ has been observed. This verse suggests that the debtors should be forgiven. A sense of sympathy toward the debtors is emanating from this verse. A new adjective can’t be generated from the term ‘ar-Riba’ from this verse.

فَإِنْ لَّمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِّنَ اللَّهِ وَرَسُولِهِ وَإِنْ تُبْتُمْ فَلَكُمْ رُءُوسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ

Figure 11. *Surah Al-Baqarah, verse 279 (2:279). Source: Holy Qur’an*

English translation: “And if ye do not, then be warned of war (against you) from Allah and His messenger. And if ye repent, then ye have your principal (without interest). Wrong not, and ye shall not be wronged”.

The verse (2:279) is a continuation of the preceding verses of ‘Surah Al-Baqarah’. After employing various methods such as appeals, persuasiveness, and warnings, the divine message is ultimately directed towards those who persist in disobeying. In this verse, a stern warning has been issued to those who persist in the practice of ‘ar-Riba’. If they continue to do so, a war will be launched upon them by Almighty Allah and His messenger. This war may not be a physical war, but rather a spiritual war (a divine curse), and Almighty Allah is the ultimate judge. However, interestingly, here again, the doors of mercy have been kept open. The divine message is urging the usurers to further clarification that they are allowed to take back their capital without interest. Thus, they may get clemency from Almighty Allah. In the end, a very important message has been delivered: Almighty Allah neither wants to see the usurers as losers (if they repent) nor the debtors. This is a vivid illustration of a well-balanced approach. No novel adjective has emerged from this verse.

وَإِنْ كَانَ ذُو عُسْرَةٍ فَنَظِرَةٌ إِلَىٰ مَيْسَرَةٍ وَأَنْ تَصَدَّقُوا خَيْرٌ لَّكُمْ إِنْ كُنْتُمْ تَعْلَمُونَ

Figure 12. *Surah Al-Baqarah, verse 280 (2:280). Source: Holy Qur’an*

English translation: “And if the debtor is in straitened circumstances, then (let there be) postponement to (the time of) ease; and that ye remit the debt as almsgiving would be better for you if ye did but know”.

This is the first verse within the context of ‘ar-Riba’ wherein the issues of debtors are directly addressed. It has been observed that there is a distinct indication of sympathy and compassion towards the debtors. This verse firstly urges the usurers to allow some additional time to repay the capital if the debtor is in financial difficulty, and secondly, it urges the usurers to forgive the entire debt as an act of ‘voluntary almsgiving’ or ‘sadaqah’. Both divine directives in this verse serve as a kind favour to debtors since the system of ‘ar-Riba’ during the period of jahiliya victimized numerous impoverished families through the cruel, deceitful, and unjust actions of the usurers. It is discernible from the above-cited Quranic verses that the divine messages refer to matters relating to the debtors with sympathy and compassion, but nowhere does the divine message condemn the debtors or censure them. Intuitively, it is logical to comprehend how a victim of cruelty and deception can be held accountable, given that the debtors during the period of jahiliya were primarily borrowing for their necessities (e.g., basic needs of the family, cost of cultivation, cost for children’s weddings, etc.). No new adjective has emerged from this verse about ‘ar-Riba’.

### 5.3.1 Results of Analysis 3

The verses (4:161 & 3:130) depict the term ‘ar-Riba’, which was a cruel, unjust, deceitful and exploitative lending system prevalent during the period of jahiliya. It is now apparent why usury is prohibited in all Abrahamic religions. For instance, certain books of ancient testaments have also explicitly prohibited the practice of usury (i.e., Deutonomy 23:20; Exodus



22:25; Ezekiel 18:8,13,17,22:12; Leviticus 25:35-36; Proverbs 23:8; Nehemiah 5:7; and Psalms 15:5). Analyzing the Quranic verses, it warrants now to discern the true essence of the term 'ar-Riba' since some distinct characteristics of the term 'ar-Riba' has been unambiguously explained in the two verses (4:161 & 3:130). It has emerged that verse 4:161 possesses the essence of the following adjectives: 'deceitful', 'unfair', 'unjust', 'illegal', 'misleading', and 'extortive'. Whereas verse 3:130 exhibits the essence of the following adjectives: 'unfair', 'unjust', 'illegal', 'cruel', 'extortive', 'exploitative', 'oppressive'. The definition of the English term 'usury' and the examination of the Quranic verses point to the practice of exploitation as the source of these adjectives. It is imperative to mention that upon a thorough analysis of the two verses (4:161 & 3:130), it becomes evident that the distinct characteristics of the Quranic term 'ar-Riba' are closely associated with the term 'usury'; thus, the proposed definition of 'usury' appears to be valid. But to derive the true essence of the term 'ar-Riba' from the Holy Qur'an, a fine-tuning of the definition of the term 'usury' is required. Therefore, adding two more adjectives ('unjust' and 'deceitful') to the proposed definition will offer a balanced perspective. The modified definition of the term 'ar-Riba' or 'usury' is as follows, "*usury can be defined as a kind of practice of lending money which is unfair, unjust, deceitful, illegal, unregulated, and having unreasonably high interest rate*".

Delving into the analyzed Quranic verses and the definitions of the term 'usury', it becomes now comprehensible that the distinct characteristics of 'ar-Riba' or 'usury' are associated with the word exploitation. Therefore, 'ar-Riba' can be equated only with exploitative kinds of bank-interests. Exploitation is absent from bank interests in a market that is regulated and competitive. The findings derived from the analyses prompt inquiries regarding the reliability of employing the term 'interest' or 'bank interest' in the English translations of the Quranic term 'ar-Riba'.

In this section, 'ar-Riba' related to all original Quranic verses in Arabic and their English translations are illustrated. The context in which the verses were revealed is further elaborated upon through a concise discussion of each verse. In the forthcoming section, it is imperative to examine the 'tafsirs' or commentaries of the Holy Qur'an on the pertinent Quranic verses to obtain validation or confirmation of the findings.

#### 5.4 Analysis 4

In this section, commentaries will be examined to better understand the true characteristics of the Quranic term 'ar-Riba'. The commentaries of the Holy Qur'an constitute a vast body of knowledge. Therefore, in this section, the commentary of three authors, derived from both classical and modern sources, shall concentrate on two crucial verses (3:130 & 4:161), wherein certain indications are provided regarding the characteristics of the Quranic term 'ar-Riba'.

##### 5.4.1 Criteria for selecting sources

The commentaries are selected based on specific criteria to ensure that they are representative of all-encompassing perspectives. For instance, the first criterion is to select both contemporary and classical commentaries. The second criterion is to select at least one reputable commentary. It is widely acknowledged that the commentary by Ibn Kathir is highly esteemed, and he is regarded as a leading authority in Islam. The third criterion is to include at least one commentary from a non-Arab origin and an apolitical author. In the non-Arabic Islamic world, the Indian sub-continent constitutes a third of the global Muslim population (Top 10 Countries with the Largest Number of Muslims, 2021). Therefore, the selection of an author hailing from the Indian sub-continent is a legitimate criterion, and Maulana Wahiduddin Khan is undeniably a highly esteemed and undisputed apolitical Islamic scholar. The third criterion was to select a commentary by an author who was distinct from mainstream Islam. The commentary by Al-Qushayri was selected due to his propensity towards Sufism. Initially, the commentaries will be quoted, followed by a brief analysis of commentaries.

##### 5.4.2 Commentaries on the Quranic verse (3:130)

###### **Al-Qushayri (986-1072) (Lataif al-Isharat: Subtle Allusions, p. 331)**

*O you who believe do not exact usury doubled and redoubled. And fear God so that you may prosper. And fear the fire that has been prepared for the disbelievers. [God] has prohibited usury for His servants; this includes loaning one amount and asking twice as much in return.* But He has asked you for a loan which He will repay seven hundredfold, even up to an infinite repayment. This alludes to the magnanimity karam that is not inherent in humans but rather is an attribute of the Real سبحانه. And fear the fire that has been prepared for the disbelievers: These words indicate that the believer will not be chastised by [the fire]. If he is chastised by it for a time, he will not abide in it.



**Ibn Kathir (1300-1373) (Tafsir Ibn Kathir, vol. 1-10 Abridged, p.266-267)**

*“O you who believe! Do not consume Riba doubled and multiplied, but fear Allah that you may be successful”*. Allah prohibits His believing servants from dealing in Riba and from requiring interest on their capital, just as they used to do during the time of jahiliya. For instance, when the time to pay a loan comes, the creditor would say to the debtor, *“Either pay now or the loan will incur interest”*. If the debtor asks for deferment of the loan, the creditor will require interest and this would occur year after year until the little capital becomes multiplied many times. Allah also commands His servants to have Taqwa of Him so that they may achieve success in this life and the Hereafter. Allah also threatens them with the Fire and warns them against it.

**Maulana Wahiduddin Khan (1925-2021) (Tazkirul Quran p.169)**

*“Believers do not devour usury multiplied many times over. Fear God, so that you may prosper – guard yourself against the Fire prepared for those who deny the truth”*. Engaging in usury is the ultimate in money worship. A usurer thinks day in and day out as to how to double and quadruple his money. But what he ought to pursue relentlessly is not the acquisition of material things but his entry into Paradise in the Hereafter. He ought to be ever eager to attain God’s mercy and blessing, but not by increasing his worldly wealth to guarantee himself a life of grandeur in this world. Honor and success are of no importance when compared to Paradise, the pleasure and enjoyment of which are immeasurable. Wise is the one who pursues God’s Paradise. Hastening towards it means giving away more and more of one’s wealth for the cause of God. The way to worldly success is to *increase* one’s riches, while the way to success in the Hereafter is to *decrease* one’s riches. If the inspiration to tread the former path is the love of money, the inspiration towards the latter is the love of God and His Messenger. If the ‘wealth’ of the former is worldly profit, the ‘wealth’ of the latter is the profit of the Hereafter. Where those desirous of riches have a fear of worldly loss, those of a spiritual bent of mind fear a loss in the Hereafter.

**5.4.3 Commentaries on the Quranic verse (4:161)**

**Al-Qushayri (986-1072) (Lataif al-Isharat: Subtle Allusions, p. 467)**

*“And because of their taking usury when they had been forbidden it and their consuming people’s wealth through falsehood and We have prepared for the disbelievers among them a painful chastisement”*. It is said that committing prohibited acts leads to the forbidding of what had been permitted. Whoever commits a prohibited act with his outward self is forbidden that which he used to find in his permitted states and the subtle kindnesses received in his innermost self.

**Ibn Kathir (1300-1373) (Tafsir Ibn Kathir, vol. 1-10 Abridged, p. 45-46)**

*“And their taking Riba’ though they were forbidden from taking it”*. Allah prohibited them from taking Riba’, yet they did so using various kinds of tricks, ploys, and cons, thus devouring people’s property unjustly. And we have prepared for the disbelievers among them a painful torment. Allah then said, *“But those who are among them are well-grounded in knowledge”*.... firm in the religion and full of beneficial knowledge.

**Maulana Wahiduddin Khan (1925-2021) (Tazkirul Quran p.265)**

*“For taking usury, when they have been forbidden to do so. And because of their devouring people’s wealth wrongfully. We have prepared a painful punishment for those of them who [continue to] deny the truth”*. When a group opts for a self-styled religion instead of the divine religion, it decides upon certain self-styled signs to show its religious status. According to the temperament and circumstances of its members, it formulates new rules about what is lawful and what is unlawful, and by sedulously observing them, it shows that it adheres to religion more than others do. The religion of such people is based on excessive care for certain outward forms, as opposed to paying proper attention to the spirit of the religion’s rules. By fully observing the form they are completely satisfied that they have been following their religion to the letter. Such so-called adherents of religion are not afraid of deriving worldly benefits from the ways forbidden by God, and they are not afraid of putting obstacles in the path of the divine caller. Such people will be bracketed with the patently irreligious, far from being grouped along with truly religious people. There were certain people among the Jews, like ‘Abdullah ibn Salam, who believed in the Prophet Muhammad and fully supported him. Those who are not caught up in human interpolations in their religion, who have discovered the original divine religion, who have risen above the mentality of prejudice, blind imitation of their community’s ways and opportunism, find no obstacle to their recognizing the truth and surrendering themselves to it.



They can see the truth despite all kinds of mental blocks. These are the people who will be ushered into the Paradise God has prepared for them.

#### 5.4.4 Results of analysis 4

The relevant parts of the commentaries of the Quranic verses are underlined. Upon examining the commentary on verse 3:130, it can be discerned that Al Qushayri elucidates the true essence of ‘ar-Riba’ by stating that it “... *includes loaning one amount and asking twice as much in return*”, which is in agreement with the findings of this study. Ibn Kathir provides significant information that the ‘ar-Riba’ that is prohibited is the type of ‘ar-Riba’ that was in use during the period of jahiliya. The following words of Ibn Kathir concur with the arguments presented in this study, “... *just as they used to do during the time of jahiliya*”. The commentary of Maulana Wahiduddin Khan supports the argument presented in this study, which states that the prohibited ‘ar-Riba’ was usually a bilateral, unregulated, and non-institutionalized transaction. For instance, the following sentence depicts that kind of scenario, “*A usurer thinks day in and day out as to how to double and quadruple his money*”. Therefore, it has no resemblance to the interest charged by contemporary conventional banks.

Upon examining the commentary on verse 4:161, it becomes evident from the following words of Al-Qushayri that the practice of ‘ar-Riba’ during the period of jahiliya was a deceitful act “...*consuming people's wealth through falsehood....*”. Moreover, the commentary of Ibn Kathir further substantiates this assertion by the following words, “...*yet they did so using various kinds of tricks, ploys, and cons, thus devouring people's property unjustly....*”. The commentary of Maulana Wahiduddin Khan on this verse (4:161) does not indicate anything specific about the topic of ‘ar-Riba’. However, it is imperative to note that prior to commencing his commentary on ‘ar-Riba’ for verses (275 - 280) in Surah Al-Baqarah, Maulana Wahiduddin Khan defines ‘ar-Riba’ as follows: “*The word ‘riba’ in the original is translated here as ‘usury’, which means the practice of lending money to people at unfairly high rates of interest*” (Khan, 2012, p.119). The definition of the Quranic term ‘ar-Riba’ provided by Maulana Wahiduddin Khan bears resemblance to that provided in this study in terms of essence, meaning, and characteristics. Ultimately, by analyzing the commentaries of three distinguished classical and contemporary authors, it can be asserted with confidence that the commentaries validate the findings derived from the analyses conducted in this study. In the subsequent section, this study will attempt to reflect on the findings by looking further into certain significant points to reinforce the topics that have already been discussed.

## 6. Reflection derived from the analyses

The Federal Deposit Insurance Corporation (FDIC) in the United States identifies usury rates as a form of predatory lending, which it defines as the practice of imposing unfair or abusive loan terms on borrowers (Fernando, 2022). Certain traditionalists, revivalists, and academic scholars equate ‘ar-Riba’ with contemporary bank interest (e.g., Maududi, 2019; Usmani, 2002; Zaidi, Calandra, & Tarek, 2024). Their argument is weak because the verses of the Holy Qur’an (4:161 & 3:130) conspicuously describe the distinct characteristics of ‘ar-Riba’ and associate this term with exploitation. According to the analysis of the commentaries, an exploitative type of lending system used during the period of jahiliya is prohibited. It is noteworthy that none of the three commentaries posited a divergent perspective. It can be argued with confidence that the exploitative type of lending system is referred to as ‘ar-Riba’ in the verses of the Holy Qur’an.

Moreover, during the period of Jahiliya, no other lending system was in place except the system of ‘ar-Riba’, and certainly not the financial system in use today. Despite the existence of an unfair, unjust, cruel, and exploitative lending system, individuals in need during that period had no other options. However, the institutionalized and regulated lending system of today is very different from the system of ‘ar-Riba’. El-Gemal (2006, p.10) cites the following statement to explain why it was necessary to prohibit ‘ar-Riba’ during the period of jahiliya, “*ancient usury laws, which forbade all interest on loans, was intended to be a form of a priori social insurance. In societies with pervasive poverty, the cooperative charitable lending rule provides transfers from fortunate individuals born with wealth to those less fortunate*” (Glaeser & Scheinkman, 1998). In the analysis section, four cycles of analysis have been carried out. The objective of first analysis is to investigate how authors have translated the Quranic term ‘ar-Riba’ into English from the period of 1649 until 2023. In the second analysis, the definitions of the terms ‘usury’ and ‘bank interest’ are gleaned from ten reputable ten dictionaries. The third analysis scrutinizes all verses pertaining to ‘ar-Riba’ within the Holy Qur’an to understand the true nature and meaning of the Quranic term ‘ar-Riba’. Finally, in the fourth analysis, classical and contemporary ‘tafsirs’ or commentaries of the Holy Qur’an on the pertinent Quranic verses are analyzed to obtain validation or confirmation of the findings. The findings suggest that the true





essence of the Quranic term 'ar-Riba' is akin to the contemporary English language term 'usury', rather than 'interest' or 'bank-interest'. Therefore, it is imperative to posit that the word usury is the most appropriate translation of the Quranic term 'ar-Riba'. Both the Quranic term 'ar-Riba' and the English term 'usury' have one thing in common, and that is, they are associated with exploitation, which is contrary to the fundamental principles of social justice in Islam. Additionally, the analysis provides that the words 'usury' and 'bank interest' are distinct. The Quranic term 'ar-Riba' and the English word 'usury' are associated with exploitation, while the English word 'interest' or 'bank-interest' is not. The reason is that conventional banks operate as institutions within a regulated and competitive financial ecosystem. Therefore, it is incorrect to equate 'ar-Riba' with contemporary bank interest.

In the following, an attempt has been made to reveal the true nature and distinct characteristics of the term 'ar-Riba'. During the period of jahiliya, 'ar-Riba' is also coined as 'Riba al-jahiliya'. In addition to the Quranic source, the following section will attempt to explain how other sources have contemplated the true nature and distinct characteristics of 'Riba al-jahiliya'.

### 6.1 Is 'ar-Riba' identical to 'Riba al-jahiliya'?

The term 'Riba al-jahiliya' refers to the lending system that existed in medieval times. According to the Britannica dictionary the term 'jahiliya' refers to, "*the period preceding the revelation of the Qur'an to the Prophet Muhammad. In Arabic the word means 'ignorance' or 'barbarism' and indicates a negative Muslim evaluation of pre-Islamic life and culture in Arabia as compared to the teachings and practices of Islam*". Many contemporary Islamic scholars agree that the term 'ar-Riba' mentioned in the Holy Qur'an is meant to 'Riba al-jahiliya' (e.g., Farooq, 2009; Zaman, 2011; and Kahf n.d.). According to Kahf (n.d. p.1), "*'Riba Al-Jahiliya' is the Riba in loans. It could be when a loan contract is made or when a previous debt is rescheduled. Many people say the second form was more common among the Arab people of Jahiliya, or the pre-Islamic period. All scholars agree that the reference to Riba in the Qur'an is to this one. It takes place only in debts created via lending or extended to a new maturity via rescheduling*". The system of 'ar-Riba' or 'Riba al-jahiliya' possesses a distinct characteristic, wherein the debt is doubled in the event of default and redoubled in the event of a repeat default (Eposito, 2003). During the period of jahiliya, the borrowers were mainly people who were struggling to meet their basic needs. The Quranic verses (2:78, 2:280, 3:130 & 4:161) provide explicit indications of their unfortunate fate, indicating that they were impoverished individuals. In the event of default, certain borrowers were even enslaved by the lenders (Martin, 2004). Some scholars posit that the widespread practice of enslaving loan defaulters and shipping them to foreign lands in ancient times is the root cause of religious condemnation of interest on loans (e.g., Khan, 2015). To establish a simple and effective risk management mechanism for small borrowers who cannot afford the negative consequences of financial transactions, all Abrahamic religions, along with Hinduism, Buddhism, and numerous other ancient religions, prohibited interest on loans (Kuran, 2011).

Therefore, given the distinct characteristics of 'Riba al-jahiliya', no analogy can be drawn with the contemporary regulated and institutionalized lending system. The revelation of the Holy Qur'an not only guides humanity towards faith, but it is also a book that sets principles for our socioeconomic and cultural life based on sound reasoning. If not substantiated with evidence, it is implausible that any alternative lending system other than 'ar-Riba' or 'usury' existed at the time of the revelation of the verses of the Holy Qur'an. In the following, this study will further examine the reasons behind certain individuals' errors in their judgment to comprehend the true essence of the Quranic term 'ar-Riba'.

### 6.2 The generic 'Riba' and the distinct 'Riba' (ar-Riba)

Kahf (2006, p.3) states that "*Riba is an Arabic word that means increment or increase. But the Qur'an did not mean any increase. It refers to a specific sort of transaction, 'the riba', that was practised and known among the Arabs and other nations at the time of revelation. For this reason, the reference in the Qur'an came with the article 'the.'* 'The' riba means a specific transaction known to the audience". The Quranic verses (e.g., 4:161 & 3:130) unequivocally described some distinct characteristics of 'ar-Riba'. The verse (4:161) describes that the usurers used to have an unjust and extortionate claim over the property of the debtor in case of default. The verse (3:130) describes that the usurers had a predetermined extortionist attitude, as in case of default, they increased the amount of capital to double or even quadruple. This type of malicious attitude not only contravenes the teaching of Islam but also offends humanity. It is imperative for a human being, particularly a Muslim, to exhibit kindness and compassion towards a needy and impoverished individual who is facing disparate difficulties. Farooq (2009, p.108) asserts that "*at the time of the revelation of the verses about riba, the only type*



of 'Riba' known was 'Riba al-jahiliya' (which doubled and redoubled late loan payments). However, later, the scope of the definition of riba was broadened based on hadith". If the science of 'hadith' is error-free, it would make sense to prohibit something based only on 'hadith. It is incorrect to declare something as 'haram' without providing explicit evidence in the divine text, as human interpretations are susceptible to errors. Moreover, there is no historical evidence to suggest that 'Riba al-jahiliya' was like the financial system in use today (Zaman, 2011).

The Holy Qur'an consistently employed the term 'ar-Riba' accompanied by a distinct article, namely 'the' (in English) or 'al' (in Arabic). This is because the Holy Qur'an utilized the term 'the Riba' or 'ar-Riba' to denote a specific lending system that possesses distinct characteristics, as elucidated in Quranic verses (e.g., 4:161 & 3:130). Regrettably, certain traditionalists, revivalists, and academic scholars are interpreting the term 'ar-Riba' without a distinct article 'the' or 'al', thereby encompassing its meaning as 'any increment' and equating it with 'interest' or 'bank interest'. This interpretation is contrary to the divine message and its true essence. Shanavas (2018, p.6) contends that "based on the Quranic criteria, every kind of increase or interest on capital cannot be prescribed as 'ar-Riba'". Lamentably, certain traditionalists, revivalists, and academic scholars fail to consider the distinct characteristics of 'ar-Riba', which embodies the essence of exploitation, as mentioned in the Holy Qur'an. Furthermore, they fail to consider the context in which 'ar-Riba' is prohibited not only in Islam but also in all Abrahamic faiths.

The Quranic verses (e.g., 2:78 & 2:80) clearly indicate that the text pertains to impoverished and needy individuals, but it does not pertain to commercial or investment loans, as one might imagine successful farmers borrowing to expand their herds. The scenario implies that a neighbouring farmer's harvest has failed, necessitating borrowing to provide sustenance for his family or planting for the next season. Similarly, if a working horse or camel has passed away, borrow to purchase a replacement. Kuran (2011, p. 146) echoes the same arguments, "In the overwhelmingly agrarian economies of antiquity, loans for production or commerce were uncommon, and governments rarely borrowed. The main purpose for borrowing was to meet personal subsistence needs". It implies that the motivation and emphasis of the Quranic verses are directed towards the predicament of the needy and that lending is a means of providing support for the needy through 'voluntary almsgiving' or 'sadaqah' rather than exploiting and behaving opportunistically to increase earnings unjustly as a usurer.

### 6.3 'Ar-Riba' or 'Riba al-jahiliya' in hadith

Ibn Hajar al-Asqalani (d. 1449 CE), in his book (Fathul Bari, vol. iv, p.264), refers to the following hadith from 'Muwatta' of Imam Malik (d. 795 CE), where 'ar-Riba' has been identified as 'Riba al-jahiliya'. "Malik related to me that Zayd ibn Aslam said, Riba in the Jahiliyya was that a man would give a loan to a man for a set term. When the term was due, he would say, Will you pay it off or increase me? If the man paid, he took it. If not, he increased him in his debt and lengthened the term for him" (Muwatta' Imam Malik Book 31, Hadith 84). The statement made by Zayd ibn Aslam, which is documented not only by Imam Malik but also by Imam Al-Bayhaqi and Imam Al-Razi, indicates that the initial interest was not usury-based and, therefore, not considered 'ar-Riba' (Rahman, 1964). Farooq (2012, p.295) asserts that "the exploitation and injustice of such 'Riba-based' transactions are obvious and hardly require any further explanation or clarification. This type of 'Riba' is known as 'Riba al-jahiliya', and according to some Islamic scholars, such as Imam Ahmad Ibn Hanbal (d. 855 CE), only such 'Riba' is unlawful without doubt from the Islamic viewpoint". Numerous 'Sahaba' (e.g., Ibn Abbas, Abdullah Ibn Masud, Usama Ibn Zayd, Urwah ibn Zubayr, Zayd Ibn Arqam) and many earliest Islamic jurists believed that the only unlawful 'ar-Riba' was 'Riba al-jahiliya' (Saleh, 1986).

It is imperative to briefly discuss the debate based on 'hadiths' that the individual who pays 'ar-Riba' is equally guilty as the individual who consumes 'ar-Riba' (Sahih Muslim 1598). It is noteworthy that the Holy Qur'an does not explicitly state that the individual responsible for paying 'ar-Riba' is liable or guilty. Rather, when the topic of payers or debtors was brought up (e.g., 2:278 & 2:280), the tone can be characterized as kind, sympathetic, and compassionate, thereby rendering the payers or debtors as victims. It appears to be irrational why a victim would be subjected to further victimization. As regards to 'hadiths', as per Javed Ahmed Ghamidi, there exists only one reliable anecdote wherein the Prophet (Blessings and peace be upon him) discussed the matter of payers or debtors in front of multiple 'Sahaba', and it is subsequently recounted by multiple narrators in multiple 'hadiths', including 'Sahih Muslim', (hadith n° 1598). Ghamidi (2020) argues that the message of the Prophet (Blessings and peace be upon him) has been misinterpreted by the narrators because the Prophet (Blessings and peace be upon him) mainly cursed individuals who are associated with the 'ar-Riba' business. However, Ibn Ashur (2006) questioned the legal significance of an isolated hadith when formulating legislation.



For instance, as per the hadith, the consumer is the individual who owns the business of lending money on interest or, in other words, who consumes the profit from ‘ar-Riba’. Additionally, it mentions three distinct groups of individuals who are directly associated with and facilitate this business. The first group of individuals, referred to as ‘the payers’, are those who collect money from the debtors and pay it to the owner. The Arabic term ‘*Mu’kil*’ has been used to express this group of people. According to Ghamidi (2020), the term ‘*Mu’kil*’ is misconstrued and is incorrectly attributed to the debtors, as they are neither associated with nor facilitating this business. The debtor simply sought help to meet his/her basic needs. It becomes evident by examining the other two groups of individuals, namely the witnesses and those who record the transaction. Individuals from both groups are associated with and facilitate the business. Therefore, the meaning of ‘*Mu’kil*’ cannot be that of the debtor but rather that of the individuals who collect the money and pay it to the owner. Nonetheless, the interpretation and explanation of Javed Ahmed Ghamidi is undoubtedly a matter of contention among Islamic scholars as it lacks sound judgment and necessitates further investigation.

Perhaps the final ‘hadith’ (e.g., figure 13) regarding the prohibition of ‘ar-Riba’ was derived from the farewell sermon of the Prophet (Blessings and peace be upon him), delivered in front of approximately one hundred thousand ‘Sahaba’ on Friday, the 6<sup>th</sup> of March, 632 CE in the Uranah valley of Mount Arafat. The subsequent ‘hadith’ cited by the ‘Sahih Muslim’ further supports the thesis presented in this study, namely that the prohibited ‘ar-Riba’ is actually ‘Riba al-jahiliya’ as the Prophet (Blessings and peace be upon him) explicitly mentioned it in his sermon. The subsequent ‘hadith’ is also in accordance with the Quranic verses (e.g., 4:161 & 3:130). Thus, there can be little uncertainty regarding its veracity. In the subsequent section, a succinct discourse will center on the inadequacy of IBF institutions in gaining legitimacy among their social partners, and the imperative for enhancing them to establish social justice as mandated by the Islamic faith.

وَرِبَا الْجَاهِلِيَّةِ مَوْضُوعٌ وَأَوَّلُ رَبًّا أَضْعُ رَبَانَا رَبًّا عَبَّاسِ بْنِ عَبْدِ الْمُطَّلِبِ فَإِنَّهُ مَوْضُوعٌ كُلُّهُ

Figure 13. In the last sermon of the Prophet (Blessings and peace be upon him), ‘Riba al-jahiliya’ was quoted.

Source: Sahih Muslim 1218a; In-book reference: Book 15, hadith 159; US-MSA web (English) reference: Book 7, hadith 2803.

English translation (Extracted from Sunnah.com): “The riba of the Jahiliya is abolished, and the first riba that I abolish is that of ‘Abbas ibn Abd al-Muttalib; it is all abolished”.

## 7. Discussion pertaining to the Islamic Banking and Finance (IBF) system

When this paper is delving into the terms usury and bank interest and their significance in the context of Islamic theology, it is imperative to briefly discuss the IBF system, as nearly \$ 4 trillion of the global IBF industry is based on the prohibition of contemporary bank interest.

### 7.1 Usury, interest, and the Islamic banking and finance (IBF) system

To prevent the Muslim Ummah from engaging with the bank interests of conventional banks, a novel business initiative was initiated in the late 20th century, primarily by affluent Arab entrepreneurs. The initiative has been referred to as Islamic Banking and Finance, which not only covers Muslim-majority countries but also has a notable presence in some Western countries. Globally, there are over 300 banks, estimated to be worth nearly \$4 trillion and accounting for approximately 1% of the global assets. The label bears the designation of Islamic and is deemed ‘Sharia-compliant’ or ‘halal’ (permissible). However, it is imperative to ascertain to what extent it is successful in gaining legitimacy among their social partners and where further improvements are necessary to establish social justice as mandated by the Islamic faith.

Pejman (2019, p. 18) argues that “*Indeed, failing in its utopian ambitions, Islamic finance has contented itself with seeking the same objective as their conventional counterparts*”. Kingdom of Saudi Arabia does not officially recognize the concept of IBF and, therefore, does not allow any bank to use the term ‘Islamic bank’ with its name (Warde, 2010). Moreover, in Indonesia, the world’s most populous Muslim country, the market share of IBF is less than 5%, and surprisingly, in the Gulf States, where IBF initially started and has a strong foothold, its share is accounted for only about one-third of the market



(Yueh, 2014). The low market penetration rate of IBF institutions, even in countries with a Muslim majority, indicates some shortcomings on the part of IBF institutions to serve the Muslim community.

Kahf (2004, p.2) states that *“Islamic banks are not different from other financial institutions in terms of their legal modalities, constitutive structures, objectives and means of achieving those objectives. The only difference lies in their description as Islamic”*. The fundamental principle behind prohibiting ‘ar-Riba’ in all Abrahamic faiths is to establish a balanced society that is free from unjust, extortive, exploitative and oppressive usurers. Furthermore, there will be an equitable distribution of wealth through kindness and compassion (i.e., Sadaqah & zakat). On the one hand, numerous scholars acknowledge that the premise of prohibition of ‘ar-Riba’ as articulated in the Holy Qur’an is based on injustice, exploitation, and hardship (e.g., Ahmad & Hassan, 2007; Farooq, 2009, 2012; Suzuki, 2019). This notion is bolstered by Quranic verses and in the writings of some early Islamic scholars, such as Imam Al-Razi (d. 1210) and Ibn Al-Qayyim (d. 1350), who posit that the prohibition of ‘ar-Riba’ pertains to the exploitation of the impoverished, rather than the pursuit of profit. On the other hand, numerous revivalists are strong proponents of IBF and want to create an interest-free society (e.g., Maududi, 2019; Usmani, 2002).

The divine messages and traditions of the Prophet do not suggest that creating an interest-free society is a part of religion. Let us contemplate the fact that the interest-free (0% interest rate) society has been successfully established. However, what implication will it have for an individual who seeks to borrow from an IBF institution that is deemed ‘Shariah compliant’ to acquire a property to live with his family? IBF institutions do not charge interest, but they charge a portion of the rent for the property from the debtor. The IBF institutions charge their clients a 9% interest rate to be ‘Sharia compliant’, while conventional banks charge a 6% interest rate (Akram, 2023). This means that the debtor is exploited and must pay 50% higher than what is available in a regulated and competitive market. If the interest rate were to become zero, would the IBF institutions charge less to their clients? The answer is no, *ceteris paribus* because the IBF institutions do not charge interest. Instead, they charge a portion of the rent for the property. The debtors of IBF institutions will pay nine times more than the conventional banks, who will charge a 0% interest rate if the instalments of IBF institutions are not linked to the ‘London Interbank offered rate’ (LIBOR) and if the rental cost stays the same.

After a decade of trials now in 2024, Japan has decided to reverse its zero-interest rate policy. The interest rate in Japan was zero for a long period of time, but the residential rental cost did not decrease. In the scenario, if the interest rate was zero, the borrowing clients of the IBF institutions would be significantly less fortunate than in the present circumstance. Certain traditionalists and revivalists may be on the wrong side of a just system as they are not opposed to exploitative bank interest rates but rather to an equitable interest rate that is offered in a regulated and competitive market. The present inquiry pertains to whether the policies of Islamic banks are in accordance with divine guidance, which may prevent Muslim Ummah from dealing with conventional banks. In the findings of the study, Farooq (2012, p. 292) concludes that *“On the basis of the behaviour of the Islamic finance industry, it seems that the industry’s current practices are either neutral to the issue of injustice/exploitation or mirrors the tendencies of the conventional finance. Furthermore, when comparing the exploitative role of interest and profit, the latter seems to be more consequential than generally understood and acknowledged”*.

In Western nations, a significant number of Muslim families are experiencing difficulties in paying their ever-increasing house rent. Due to the interpretation of certain traditionalists and revivalists equating ‘ar-Riba’ with bank interest, a minority of Muslim families are hesitant to engage in dealings with conventional banks. An example from the UK can be regarded as a representative in the context of Western nations, as the IBF in the UK holds a market share of 85% in the European market. An article published in the British newspaper (The Guardian, written by Akram, 2023) regarding the dilemma faced by British Muslim home buyers seeking a ‘Sharia-compliant’ loan. Not only is a 50% higher interest rate exploitative but further, *“the costs of such arrangements are high and Muslim buyers who take out one of these agreements need a large deposit”* (Akram, 2023, p. 1). It has been reported that customers of IBF institutions are required to make a deposit of a minimum of 25% of the property’s value, whereas the minimum deposit requirement for conventional banks is only 5%. Furthermore, it is very difficult to obtain a loan from IBF institutions, as reflected in the following quotes, *“criteria are incredibly strict; not only does the buyer have to pass affordability tests, but the property has to be approved, too”* (Akram, 2023, p. 1). Another comparison illustrates that the UK-based Islamic bank’s (e.g., Al Rayan) fixed rate is 89% higher than the conventional bank (Amin, 2019). There exist numerous instances that demonstrate IBF institutions have not been effective partners in attaining social justice, as enshrined in Islamic theology. As a result, they are not in a superior ethical position compared to conventional banks. Based on the examples cited above regarding the UK-based IBF institutions, it is evident that the IBF institutions failed to grasp the wisdom of prohibiting ‘ar-Riba’. Khan (2024, p. 109) states that *“Islamic financial institutions have adopted such operational procedures that closely resemble interest on loans, while they claim to be operating on a riba-*





free basis”. Al-Mubarak and Osmani (2010, p. 6) state that “*With a meticulous analysis, it can be visible that the current practices of the Islamic banks are, in many cases, not in conformity with the Shari’ah required standards*”. They further argue that “*the Islamic banks are simply imitating the conventional banking system*” (p. 7).

Muhammad Taqi Usmani, a prominent revivalist and ardent advocate of the IBF system, serves on the ‘Shariah’ expert board all over the world. He has authored numerous books that criticize the conventional banking system and advocate for the IBF system. However, based on the aforementioned facts, the following arguments of revivalists are simply a hollow theoretical concept that cannot be applied to a real-world scenario, “*the philosophy of Islamic bank aimed at establishing distributive justice free from all sorts of exploitation*” (Usmani, 2002, p. 113); and, “*Unlike the conventional financial institutions who strive for nothing but making enormous profits, the Islamic banks should have taken the fulfilment of the needs of the society...*” (Usmani, 2002, p. 115). The ethical shortcomings of IBF institutions also manifest in their acts of hypocrisy and misinformation. Reputed revivalists who frequently serve on the IBF’s ‘Shariah’ expert board equate ‘ar-Riba’ with bank interest and declare it ‘haram’ (prohibited), whereas IBF institutions themselves earn interest by depositing their excess funds abroad. Farooq (2012, p. 297) asserts that “*Many Islamic banks have been explicitly and openly earning interest on their excess funds, often invested in safer, debt or debt-like instruments overseas. Even the Islamic Development Bank (IDB), a multilateral development financing institution established to foster social and economic development in its 55 member countries, follows this practice*”. Many revivalists, who are members of the ‘Shariah’ expert board, endorse the interest-earning of the IBF institutions through their ruling, citing the ‘necessity clause’ (In Arabic: ‘Darurah’). However, regrettably, many revivalists do not endorse the same ruling for a person experiencing financial hardships due to the increasing cost of rent to purchase a house through affordable conventional banks. The rules are relaxed for the affluent, citing the ‘necessity clause’. Nonetheless, a Muslim layperson is advised to obtain loans from so called interest-free IBF institutions, despite their higher cost and more challenging borrowing process compared to conventional banks. Vogel and Hayes (1998, p. 38-39) expressed their frustration in the following excerpts, “*Scholars in Islamic finance and banking have invoked necessity to permit exceptional relaxations of rules. They have issued ‘fatwas’ allowing Islamic banks to deposit funds in interest-bearing accounts, particularly in foreign countries because these banks have no alternative investments at the necessary maturities*”.

SHAYKH HAITHAM AL - HADDAD	SHAYKH AKRAM NADWI	SHAYKH SUHAIB HASAN
<b><i>The Al Rayan HPP is not Islamic; it is too much like a debt instrument. (i.e., the buyer is locked into purchasing the entire finance amount back from Al Rayan from day one).</i></b>	<b><i>Get a conventional mortgage if necessary, as Islamic finance is just like conventional finance dressed up in a religious garb.</i></b>	<b><i>(At least in particular cases) : get a conventional mortgage if necessary.</i></b>

Table 3. Comments of UK-based Islamic scholars about the ‘Sharia-compliant’ home purchase plan (HPP) offered by the Al Rayan Bank (Sharia-compliant financial services). *Source: Patel (2023).*

Due to the facts, that contradict the fundamental principles of legitimacy theory, perhaps the IBF institutions have been unsuccessful in gaining legitimacy among their social partners, as exemplified by the low market penetration rate, even in countries with a Muslim majority. In keeping with the true spirit of Islamic solidarity and brotherhood, this study exhorts IBF institutions to be more generous toward their clients than conventional banks. The current section concludes by citing some comments from UK-based Islamic scholars (Table 3) about the ‘Sharia-compliant’ home purchase plan (HPP) offered by Al Rayan Bank (UK). In the subsequent section, this study concludes its argument by summarizing certain significant points to reinforce the topics that have already been discussed.

## 8. Conclusion

In section 4.3, this paper affirms unequivocally that the practice of ‘ar-Riba’ is prohibited by divine decree, as it is explicitly mentioned in the Holy Qur’an. The divergence begins now when traditionalists, revivalists, and academic scholars endeavour to define the boundary of ‘ar-Riba’. For certain, the bank interest is within the ambit of ‘ar-Riba’, while this study



posits that it is incorrect to equate 'ar-Riba' with bank interest. This is the reason why this study begins to look into the matter by posing the following question, "*What 'ar-Riba actually entails'?*" Upon completion of all analyses and discussions, the conclusions have begun to emerge. After the data collection and data analysis process of the last 374 years of English translations of the Holy Qur'an, the results of the first analysis unequivocally demonstrate that the English word 'usury' is the most appropriate translation of the Quranic term 'ar-Riba'. It is unquestionable that a large majority of scholars who have translated the Holy Quran into English have a very good command of both Arabic and English and are intelligent enough to understand the contextual aspects of the Quranic verses. The author delved further to understand how the English words 'usury' and 'bank interest' differ. The findings of the second analysis suggest that the word 'usury' is associated with exploitation, whereas the word 'bank interest' is not. Based on the findings of these two analyses, it is evident that the Quranic term 'ar-Riba' is associated with exploitative types of interest. Most of us encounter institutionalized and regulated contemporary conventional banks daily, and it is widely acknowledged that the interests of contemporary conventional banks are not exploitative. Balala (2011) presented a good argument to clarify what constitutes exploitation and what does not. Balala (2011, p.87) asserts that "*if there is an inequitable and inefficient gain, then it would be called 'ar-Riba'*". She also provides a definition of inequitable and insufficient gain, and according to her, a regulated and competitive market defines it, and the rate offered in a regulated and competitive market is equitable and efficient. Anything above the market rate would be inequitable and inefficient. Based on her analysis and the findings of the first and second analyses of this study, it is possible to conclude with certainty that the bank interest of contemporary conventional banks is not exploitative and cannot be associated with 'ar-Riba' as it operates in a regulated and competitive ecosystem, thereby being equitable and efficient. Finally, in the absence of exploitation, the contemporary conventional banks do not contravene the fundamental principles of social justice in Islam.

To attain further certainty regarding the findings, the author conducted a third analysis by scrutinizing all verses of the Holy Qur'an where the term 'ar-Riba' has been employed. It is noteworthy that two verses of the Holy Qur'an (i.e., 4:161 & 3:130) indicate that 'ar-Riba' is associated with exploitation. At this juncture, it becomes imperative to scrutinize these two pertinent verses in both the classical and contemporary commentaries of the Holy Qur'an. Finally, in the fourth analysis, classical and contemporary 'tafsirs' or commentaries of the Holy Qur'an on the pertinent Quranic verses are analyzed to obtain validation or confirmation of the findings. After examining the commentaries of three distinguished classical and contemporary authors, it can be asserted with confidence that the commentaries validate the findings derived from the analyses conducted in this study. Both Ibn Kathir and Al-Qushayri, in their respective commentaries, attributed the term 'ar-Riba' to an act of exploitation and deception. Moreover, it is noteworthy that the term 'ar-Riba' is referred to as 'Riba al-jahiliya', as evidenced by the last sermon of the Prophet (Blessings and peace be upon him) and substantiated by the commentary of Ibn Kathir. 'Riba al-jahiliya' refers to the exploitative types of lending systems in use during the period of jahiliya. It is imperative to note that prior to commencing his commentary on 'ar-Riba' for the verses (i.e., from 275 until 280) in Surah Al-Baqarah, Maulana Wahiduddin Khan defines the term 'ar-Riba' as follows, "*The word 'riba' in the original is translated here as 'usury', which means the practice of lending money to people at unfairly high rates of interest*" (Khan, 2012, p.119).

The Holy Qur'an describes a specific type of 'ar-Riba', which was known in a society where it was revealed. Due to this reason the term 'Riba' is used with a definite article 'al' (pronounced 'ar'). Regrettably, some traditionalists, revivalists, and academic scholars are neglecting this crucial aspect, which has led to the generalization of the term 'ar-Riba', which refers to any increment. '*Any increment*' is not appropriate in the present circumstances, as gold coins or silver coins are no longer utilized as a form of currency. Instead, fiat currency is prevalent worldwide, and its value diminishes over time due to inflation and other economic factors. The divine messages do not indicate that the establishment of an interest-free society is a fundamental aspect of the Islamic religion; rather, it is a human interpretation disseminated by certain traditionalists and revivalists. The true essence of prohibiting 'ar-Riba' pertains to the fundamental principle of being a good human being or a good Muslim. This includes aiding friends, neighbours, and family members in need through 'sadaqah' and 'zakat'; and refraining from exploiting individuals who are vulnerable and in difficult circumstances.

The historical origins of the contemporary banking system can be traced back to 1400 CE in Florence, Italy (Hoggson, 1926). How could the Islamic jurists of 900 CE, or even earlier, prohibit the interests of the contemporary banking system without possessing a thorough knowledge and understanding of its true nature and characteristics? Therefore, the interpretation proposed by certain traditionalists, revivalists, and academic scholars, which equates 'ar-Riba' with the bank interest utilized in the contemporary banking system, is utterly unfair, as these institutions are offering their services in a competitive market that is governed by national and international regulations. In contemporary times, banks are not solely



concerned with interest. Rather, they are largely service-oriented entities. Undoubtedly, interest constitutes a significant component of the business, primarily for covering operational expenses and adjusting for inflation and devaluation. This study aims to emphasize the distinct characteristics of the Quranic term 'ar-Riba', which are associated with exploitation, and to demonstrate that these characteristics are not present in the interest charged by contemporary conventional banks. The findings derived from the analyses prompt inquiries regarding the reliability of employing the term 'interest' or 'bank-interest' in the English translations of the Quranic term 'ar-Riba'.

Finally, this study encourages certain revivalists and academic scholars to engage in a fresh examination of the prevailing conventional doctrines of certain traditionalists regarding 'ar-Riba'. It is imperative, as evidenced by the literature review that certain religious rulings have been proven incorrect after several decades in the past. Therefore, the current religious rulings may prove to be incorrect in the future. Since religious rulings are based on human interpretations, they are susceptible to errors. Moreover, Islamic law is dependent on the environment, circumstances and place since the purpose of the law is to be beneficial to humans (Ishaq & Ridwan, 2023). Ibn Ashur argues that the foundation of shari'ah must be rational, and he strongly advocates for 'Ijtihad'. According to him, "*Ijtihad is a collective obligation (fard al-kifayah) on the community in accordance with the degree of need in the community's countries and circumstances*" (Ibn Ashur, 2006, p.17). It is essential to implement 'Ijtihad' by making the optimal utilization of the human mind, the most precious gift of Almighty Allah, to deal with contemporary and dynamic social issues (Abdad, 2014). 'Ijtihad' is used to address problems that arise within a community whose legal status is not well defined in the Holy Qur'an or in the traditions of the Prophet (Blessings and peace be upon him). With the optimal utilization of the human mind, Umar ibn al-Khattab executed 'Ijtihad' within the context of reforming Islamic law. Taking into consideration the environment and the circumstances, he courageously modified laws that were not in accordance with the literal interpretation of the verses of the Holy Qur'an or the traditions of the Prophet (Blessings and peace be upon him). For instance, denying the entitlement to 'zakat' for converts despite the disapproval of the Holy Qur'an (verse 9:60) and in contravention of the Holy Qur'an (5:38), refraining from cutting off the hands of thieves (Ishaq & Ridwan, 2023). Therefore, if the second caliph of Islam, Umar al-Khattab, was capable of suspending a 'Sharia' punishment due to social justice concerns (i.e. believing that the punishment was unjust in the context of a famine), the revivalists ought to reassess this matter, taking into account the fact that the Quranic term 'ar-Riba' and the English term 'usury' are both associated with exploitation, which is contrary to the fundamental principles of social justice in Islam.

## 9. Implications, limitations, contributions and future research directions

The findings of this study have numerous implications. Firstly, in the field of academic research, it opens a new window for scholars to revisit the prevailing conventional doctrine to understand that in academic discourse, it is incorrect to utilize the English word 'interest or bank interest when referring to the Quranic term 'ar-Riba'. Secondly, because of this incorrect interpretation, the social implication is that the Muslim Ummah is lagging in financial investments, resulting in economic hardship. Thirdly, it is a well-known fact that in a significant portion of the world, IBF institutions are not operational. Even in instances where they are operational, as evidence suggests, accessing financing can be challenging, and it is more expensive than conventional banks for borrowing clients.

Currently, there are three main limitations present in this study. The first limitation pertains to the total number of existing English translations of the Holy Qur'an that are not included in the data list. Due to time and budget constraints, it appears unfeasible to obtain all the existing translations. Nevertheless, most translations are in the data list, which may indicate a tendency towards the outcome. The second limitation is that numerous hadiths and literature from 'fiqh' pertaining to the topic of 'ar-Riba' were not discussed in this context, primarily due to space limitations and secondarily, due to doubts regarding their authenticity. However, the author believes that the verses of the Holy Qur'an constitute the most authentic and primary source and that deviating from or bypassing the Holy Qur'an would mean navigating in uncharted waters with some uncertainty. The third limitation concerns the use of English translations for certain original works written in the Arabic language. Nonetheless, to present this study in an international journal such as the European Journal of Islamic Finance, it is imperative that the manuscript be written in English to enhance its accessibility to academics, scholars, and researchers.

This study contributes to the body of knowledge in many ways. First, this study collects and analyzes data from 1649 until 2023 and reveals that a large majority of the authors deemed the English term 'usury' to be the most appropriate translation of the Quranic term 'ar-Riba', contrary to the arguments of certain traditionalist, revivalist, and academic scholars who equate the Quranic term 'ar-Riba' with contemporary bank interest. Second, this study demonstrates that the English word 'usury' is associated with exploitation, while the word 'bank-interest is not. Third, this study further contributes by furnishing a



definition of the Quranic term ‘ar-Riba’ based on the definition of the English word ‘usury’ and examination of the Quranic verses. Fourth, this study demonstrates through hadith and ‘tafsirs’ or commentaries of the Holy Qur’an that ‘ar-Riba’ is identical to ‘Riba-al-jahiliya’. Finally, this study highlights the shortcomings of the IBF institutions in the UK. In keeping with the true spirit of Islamic solidarity and brotherhood, this study exhorts IBF institutions to be more generous toward their clients than conventional banks.

Since the author disagrees with the interpretation of certain traditionalist, revivalist, and academic scholars that equate ‘ar-Riba’ with contemporary bank interest, the author suggests conducting future research to provide additional evidence based on the divine messages to elaborate on the true meaning of the Quranic term ‘ar-Riba’. Finally, the author believes that it is time to settle all the contentious and controversial issues through meaningful debates, dialogues, and academic research, of course, in the light of the Holy Qur’an.

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# The Moroccan banking system and FinTech deployment: an overview of the literature

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## Abstract

This study provides an in-depth analysis of the Moroccan financial system by examining key banking institutions, their characteristics, and their services. Under King Mohammed VI's leadership, Morocco has emerged as one of the most financially advanced Mediterranean countries and the most developed in the Maghreb. Its openness in tourism and finance has facilitated the growth of both conventional and Islamic banking sectors. Using a qualitative methodology, this research follows a structured approach. First, a literature review examines academic and regulatory perspectives on Morocco's financial system. Then, we analyze Moroccan banks by classifying them as commercial or business institutions and distinguishing between local and foreign financial entities. The study categorizes services into retail, corporate, and digital (FinTech), focusing on Sharia-compliant banking and its customer offerings. Furthermore, it assesses the evolution of digital financial services among Moroccan banking groups and foreign-owned banks. A unique aspect of this research, coauthored by management scholars and Arab studies experts, is its examination of how Moroccan banks communicate with customers, including language use and segmentation based on Sharia compliance. The findings will highlight Morocco's banking strengths and potential improvements that could inspire financial strategies in Italy and other European countries with significant Muslim communities. Additionally, this study identifies best practices for expanding Sharia-compliant services to the hundreds of thousands of Muslim immigrants from Morocco and the broader Maghreb region.

**Keywords:** Morocco, FinTech, RegTech, Islamic Finance, Banking, Management

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## 1. Introduction

Morocco geographically overlooks the Mediterranean Sea and the Atlantic Ocean. An Islamic constitutional monarchy governs it with peculiar characteristics representing a unique reality for the Islamic world, the African context, and the Maghreb area.

Islam has been present in Morocco since the 7th century A.D. and has since spread among the native Berber populations. Today, the Malikite school<sup>1</sup> is mainly followed in the Maghreb and is widespread in Egypt, West Africa, parts of Central Africa, north-west Eritrea, and some Gulf states. At the same time, in historical times, it was also prevalent in Muslim Spain and Sicily.

The subsistence in a single state order of Malikite positions, inspired by the mysticism of *tasawwuf*<sup>2</sup> spirituality and conveyed with an *Ash'ari*<sup>3</sup> theological vision, forms in Morocco's Islam a combination unique in the Arab-Islamic panorama, with great flexibility of legal-religious thought and inspiration for the political practice of tolerance and conciliation.

The great originality of Morocco's Islam lies in the fact that it is the product of an ancient and well-established tradition, resulting in a constitutional monarchy where the sovereign is both a temporal and spiritual head.

The Alawite monarchy of Morocco descends directly from Fatima, the daughter of Muhammad. It is the recipient of the title of Sharifian, which provides for widespread prestige linked to the religious and political spheres. Also, in the 1971 Constitution, Article 41 mentions that "the King of Morocco is *Amir al-mu'minīn* (Commander of all Muslim believers). Invested with the *bay'a* (the contract that regulates rights and duties between sovereign and subjects), he oversees the respect of Islam, is the guarantor of the free exercise of cults and is invested with the defence of orthodoxy".

Morocco thus becomes a nation where Islam is the state religion. Still, it also has a strong political power influence and where the Islamic tradition is a source of legitimacy for the establishment. None of the major political parties adopts a secular view of the state, and Islam has been a unifying factor used to rally the elite and general society behind the monarchy. Islam is integral to Morocco's socio-political identity, and its socialism is not antithetical to the Islamic identity of Moroccans and the centrality of tradition and religion in Morocco.

The combination of traditional elements and religious discourse is manifested in the monarchy's cultivation of its rituals of power (Daadaoui, 2010).

Furthermore, Morocco's religious and political spheres have consistently overlapped and are contingent upon one another (Manhardt, 2011).

Some other authors (Parolin, 2013) have examined similar situations of entanglement between religion and political power in other North African states, and others, such as Campanini (2015), write about a link between the political and religious aspects. Consequently, the law and the courts' jurisprudence cannot exempt themselves from this context and must protect the Islamic ideological imprint. Morocco's legal framework, as well as the legacies of the colonial past, is also influenced by Islamic tradition in the judiciary.

Another critical aspect in Morocco is the role of the Ulemas. An Ulama is a Muslim theologian who researches the Koran and the prophetic tradition (*Sunna*), but his knowledge can go far beyond theological knowledge. He is the guardian of Muslim tradition and a man of reference in the State. In Morocco, the Higher Council of Ulemas was created in 1981 to support Morocco's Muslim religious policy. In 2009, King Mohammed VI addressed the Council as follows: "We expect them to be able, with God's help and support, and with the expected efficiency and constancy, to successfully carry out the mission that We have entrusted to them in terms of preaching, awareness-raising and guidance".

Ulemas have historically played a significant political role in Morocco, although they have never really been organized as a body till 1981. Over the years, the role of Ulemas as a counter-power has been increasingly reduced. The Ulemas Council is a direct consequence of their historical and religious role. Ulemas are also important "to ensure compliance with the precepts of Islam regarding the products proposed by banks" (Battanta et al., 2024).

As explained by some authors, Morocco is enjoying a period of internal economic stability, and institutions are pushing for a revival of Islamic legal traditions in the financial sphere. One element that highlights this is that the last decade has seen the

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<sup>1</sup> The Malikite school is one of the four *madhhab*, *fiqh* schools of Islamic law and jurisprudence within Sunni Islam.

<sup>2</sup> *Tasawwuf* is the branch of Islamic wisdom that focuses on Muslims' spiritual development.

<sup>3</sup> *Ash'arism* is a theological movement adhered to by many of the Sunni Islamic world, especially Malikism. The founder was the theologian Abu al-Hasan al-Ash'ari from a Yemenite tribe. The various disciplines addressed in the school are known as *Ash'arite*, and the school is often referred to as the *Ash'arite school* or 'of the *Ash'arites*'.



emergence of Islamic or participatory banks and Islamic banking windows for Islamic products (Daoud and Azegagh, 2022; Fronzoni, 2021).

Morocco is indeed a crossroads of trade for Africa and Europe. This is not only because of its relations with France, stemming from its colonial and protectorate past, and with other European states such as Spain because of its proximity, and Italy because of its significant immigration over the years, but also because of its political stability.

The constant realities of economic growth and a more modern banking system compared to neighbouring countries in the North of Africa are unique in the entire region - which is instead characterized by widespread institutional instability, stagnation and economic depression – and give this country an important role as a privileged pioneer for all economic and financial initiatives that can be activated in the southern Mediterranean Sea. Thanks to Morocco's openness to European investors and due to the localization of industries and offers, Morocco offers, from an economic and commercial point of view, enormous opportunities for businesses as a market outlet. Due to this commercial openness, Morocco is identified as one of 17 key Islamic markets (Foo et al., 2023). The identified markets are Bahrain, Bangladesh, India, Malaysia, Indonesia, Kazakhstan, Pakistan, Egypt, Iraq, Jordan, Kuwait, Oman, Palestine, Qatar, Saudi Arabia, UAE and Morocco.

A peculiarity of Islamic banking is operating by sharing the business risk. This is why it is also called participatory banking, due to Islamic financial institutions' weighted and calculated risk in financing business transactions. For example, participatory modes of finance, including Musharaka and Mudaraba, are generally considered the essence of the design of Islamic financial products and the true spirit of the Islamic banking system (Nouman et Al., 2024).

Another way to operate is using Islamic microfinance initiatives, which may mobilize funds through participatory models such as Musharaka and Mudaraba. There is a great potential to attract depositors amongst the rich who intend to do charity via the Islamic participatory approach of risk and profit-sharing. In the Musharaka fund-raising model, the public can buy shares and become owners of the microfinance program initiated by Islamic banks or choose a specific financing project. Any profits realized from the project are distributed annually to the shareholders, while losses incurred will be shared proportionate to the amount of capital contributed by each participant. In this regard, Islamic banks guarantee the participation of every segment of society. Adopting an Islamic participatory approach in fund mobilization and financing promotes justice, brotherhood, social equality and financial inclusion instead of emerging financial exclusion, which is becoming standard in most developed countries (Dusuki, 2008).

Islam attaches fundamental importance to a distinction between what is Halal (lawful) versus what is Haram (unlawful). Muslims must conform every action of their daily life to a regulatory framework that goes by the name of Sharia. The rules of Sharia apply to every aspect of Muslims' life, both in the private and public dimensions, involving the economic and financial aspects of social and public life. On this topic, we recall Campanini and Arafa's (2020), Aliboni's (2003) and Branca's (2011) studies. Economics, management and finance are not an exception.

For Islamic finance, the results of a specific economic operation are, therefore, to be time judged according to an ad hoc 'balance' of social justice, which will assess the ways according to its ethical criteria; thus, both the final balance of the scales extended at the level of the entire social community (in terms of distributive justice) and the relationship between the individual arms of the scales (in terms of commutative justice between individuals) (Cattellan, 2017).

The Islamic conception is focused on the individual as an active member of society: the state, in outlining its goals and the way to realize them, must take the moral and psychological factors into account, as it has a significant impact on social life, its problems and their solutions (Francesca, 2013).

The economic principles of Islamic finance are based on "the prohibition of Riba (interest), the prohibition of Gharar (uncertainty) and that of Maysir (speculation)" (Cupri, 2021). Risk is another important factor in Islamic finance regarding the permissibility of futures trading in Islamic law and the underlying questions of risk-taking and speculation. For this issue, we can find a detailed analysis in the studies conducted by (Edwards, 2000; Kamali, 2002; Ayoub, 2014).

Islamic finance, in particular, constitutes a sector of the world economy in significant expansion also thanks to the demography of Muslim countries and the emigration of Muslims to Europe, the recipient of a growing interest in the international financial scene, so much to constitute an essential niche with specific rules that are distinct and, in some aspects, even distant from the financial regulations and practices of the Western world but close to sustainable ESG investments.

Muslims have undertaken a profound process of reformulating their identity in contact with Western capitalist societies (Atzori, 2010). Therefore, the Islamic finance sector aims to step up its moral responsibility in using innovative FinTech Financial technology capabilities to address emerging difficulties and protect humanity from the scourge of poverty and hunger (Alsaghir, 2023). Due to these reasons, demand for Sharia-compliant products should remain strong throughout the long term.



Sharia-compliant products will also benefit from the growing focus on ESG products, and sustainability, which Islamic principles have historically safeguarded, is essential (Zucchelli, 2022).

As Vasco Fronzoni, an expert in Islamic law and professor at the University of Venice, recalls: “Financing is carried out through a prevalent typical form of contract of double sale, Murabaha, through which the credit institution buys the asset requested by its client and then resells it to the same client at a higher price agreed upon since the stipulation of the contract and payable on term. With the Murabaha contract, the bank has a fixed profit similar in substance to an interest rate but equivalent in form to a premium on the purchase value of the good” (Fronzoni, 2021)

Islam does not tolerate any kind of gambling and, consequently, commercial or financial transactions that integrate merely speculative activities, characterized by an imponderable risk, whose outcome may depend on chance and that come close to gambling and betting. Instead, activities constituted with entrepreneurial risk are permitted.

In the following section of the paper, we will map the traditional Islamic and FinTech Moroccan banking sector and indicate what innovations, not only regulatory, can be implemented to improve it.

## 2. Methodology

The research methodology used is qualitative and is based on the following steps:

Firstly, a literature review on the Moroccan financial system should be developed based on scholarly literature on the state of the art of the Moroccan banking system, both traditional and Islamic. We also delved into the history of regulators’ positions.

We then analyzed Moroccan banks by checking the type of institution, whether commercial or corporate and the presence of:

- 1) Moroccan and foreign financial institutions.
- 2) Services offered to customers, classifying them into retail, corporate services and technological innovation (FinTech);
- 3) Sharia-compliant institutions and services offered to customers.

Finally, we searched both Moroccan banks’ websites and literature for evidence of the application of FinTech and RegTech within the Moroccan banking system. This is an innovative point of view of the Moroccan banking market that previous works have not yet implemented.

Specifically, a preliminary systematic review of all Moroccan banks was necessary precisely because the literature does not adequately map the peculiarities of the Moroccan banking system and the services offered to retail customers. In our opinion, this kind of snapshot of a rapidly evolving market must be taken in conjunction with our research to have a precise overview of the current state of the Moroccan banking system.

As for methodology, we will use the triangulation method of research results and documents. Triangulation is the use of multiple methods or data sources in qualitative research to understand phenomena comprehensively (Patton, 1999). Triangulation has also been seen as a qualitative research strategy to test validity by converging information from different sources. The validity of the results produced by case studies is confirmed through triangulation processes, which play a very important role in case studies and operate in four forms: (a) data triangulation, i.e. the researcher collects data on the same factors at different times, contexts and situations (where the researcher assumes that these factors should not vary); if all the data collected lead to essentially the same conclusions then they are valid data; (b) method triangulation, when several survey methods and data collection techniques are used simultaneously or in succession to collect the same data or data that are assumed not to vary; if the data collected lead to the same conclusions then the methods and techniques used can be considered valid; c) triangulation of researchers, i.e. several researchers study the same phenomena, using the same methods, the same techniques and the same theoretical framework of departure; if the researchers come to the same conclusions then the research process associated with the individual researcher can be considered valid; d) triangulation of theory, i.e. researchers with different theoretical frameworks and points of view examine the same phenomena; if the conclusions they come to are the same then the theoretical framework of the researcher can be considered valid.

In our case, we used a triangulation of methods and data with Moroccan banks. We triangulated data from different sources, such as websites of Moroccan banks, regulatory Authorities (the Central Bank of Morocco, Bank Al-Maghrib) and scientific contributions through Google Scholar.

Our research took place between 2022-2023, and what emerged is shown in the results of this paper. Multiple survey and data collection techniques were used, as explained by (Azungah, 2018), which include: reports from the Moroccan central bank and the interbank deposit fund, a literature review based on researching the history of the Moroccan banking system with a



particular focus on Islamic and FinTech offers, and finally the websites of Moroccan banks which were cataloged and archived on an excel sheet over a period from November 2022 to September 2023.

In addition to the consulted websites, the services of the banks in Morocco were also included in the cataloging: loans, payments, types of insurance, and Islamic products to create an accurate database of services. To run the database, the French version (compared with the Arabic version if available) of the sites was taken, which is also the unique language in the entire sample of financial institutions examined.

The results were then compared with the evidence that emerged from the literature review in English and French; this comparison gave rise to the analysis and results of this article.

Finally, a solution was proposed in the “Conclusions” section to improve the accessibility and transparency of the financial system using FinTech and RegTech technology by applying automated verification to the Islamic compliance of financial products offered in Morocco. This automated compliance verification uses the machine learning and artificial intelligence technology underpinning RegTech. For the Islamic finance industry, Sharia governance with RegTech will be significant, as RegTech supports Sharia governance requirements and will reduce the potential for Sharia non-compliance emanating from procedural issues (Kunhibava et Al., 2023).

### 3. Literature review and results

#### 3.1 Overview and literature review of Islamic banks in Morocco

Islamic economists and jurists have studied the operations of conventional banks established in Muslim countries since the early 1900s.

The first experience of Islamic finance in the modern sense was the encounter between the experience of European cooperative banks and the Islamic religious traditions of the population settled near the Nile Delta. The first Islamic institution was founded in Egypt in 1963 in the village of Mit Ghamr, and the paternity of its creation is attributed to the economist Al-Najjar, who inaugurated the first Rural Savings Bank using some public funds from the Egyptian state combined with funding from a German financial group (Cupri, 2022).

However, it was not until 1975 that the first Islamic commercial bank was established: the Dubai Islamic Bank.

The 1980s saw a proliferation of Islamic banks worldwide. By 2008, there were more than 300 Islamic financial institutions in over 50 countries.

There are 1389 Islamic financial institutions worldwide operating in more than 110 countries, and, in particular, 505 financial institutions are Islamic banks, including the Islamic windows of conventional banks. (Ali, 2023)

In fact, according to contributions of several authors, the Middle East, USA, and Asia (Crowhuri et al., 2021) are the main markets for Islamic banks, although there is also growth in European countries (Mamedov & Gasimov, 2021; Novikov et Al., 2020; Wani et al., 2021). The rise of Islamic banks was driven by technology after 2020 (Sidaoui et Al., 2022).

In the Western world and particularly in Europe, the first Islamic financial institution was the Islamic Finance House, founded in Luxembourg in the late 1970s, followed by the Islamic Finance House in Denmark, the Islamic Investment Company in Melbourne, Australia, and the American Finance House LARIBA in the United States. In 2004, the Islamic Bank of Britain was founded in the UK; by 2008, five Islamic banks had been established. Citibank, HSBC, Standard Chartered, ABN Amro and Deutsche Bank are, on the other hand, conventional banks that have entered the Islamic banking sector (Guéranger, 2009). The demand from the dynamically increasing number of Muslims in the United States and Europe for financial services and transactions made by the principles of Sharia is constantly growing. Financial products offered by the Muslim industry are attractive enough for Muslim and non-Muslim investors (Mamedov & Gasimov, 2021).

Regarding Morocco, Vasco Fronzoni, in 2021, reports that the first attempt to create an Islamic bank in Morocco took place in 1986 by Wafabank, which had moved its headquarters to Morocco that year. Fronzoni argues that in 1996 a branch of Dar Al-Maal Al-Islami was opened in Casablanca to deal only with investment activities. Still, it closed after only three years due to a lack of user response.

Another attempt was made in 2003 by the Islamic Bank of Qatar, which intended to open a fully-fledged Islamic bank in the Kingdom. However, Bank Al-Maghrib (the Central Bank of Morocco) did not fully support and supervise the initiative. A central control body at that time was not keen on developing the Islamic banking sector because it competed with the Moroccan





banking system. The same bank then tried again to enter the Moroccan market through a partnership with Cih Bank and launched the participatory Umnia Bank in 2017.

The turning point was 2006-2007, during which the monarchy ruled by Mohammed VI carried out major infrastructure (roads and railways, not only). These were aimed at making the country more competitive, with major economic transformations marked by a strong desire to align with the global dynamics of modernity, fully supported after the second political elections of Mohammed VI's reign.

Thanks to a new banking law in line with international banking supervision standards, it was decided to create a new market opportunity for participatory institutions by regulating banks and institutions that opened either a banking branch of Islamic finance activities or a banking or insurance window of Islamic financial products.

Thus, a Commission for the Coordination of Financial Sector Supervisory Bodies was set up, with the task of coordinating the supervisory actions of the regulators of the different compartments of the financial sector (banking, insurance and financial markets), as well as organizing the exchange of information on supervised entities, and also authorizing the central bank of Morocco, i.e. Bank Al-Maghrib, to sign agreements with foreign counterparts, given the increasing presence of foreign banks in both traditional and Islamic finance, and to organize joint inspection missions.

As foreign groups arrived a few years later, we remember the French banking institution BNP Paribas, through their subsidiaries, offered Islamic financial products through a different product brand.

In the case of Credit Agricole, Al Akhdar Bank (AAB) is a separate entity set up expressly to sell products that comply with Islamic law.

The change of orientation of the Central Bank of Morocco on Islamic finance in 2006 led to the drafting of a document containing a series of recommendations on three specific Islamic financial products, Murabaha, Musharaka and Ijara, typical Islamic contracts of ownership or enjoyment, the marketing of which was authorized and favored from then on. The intention was to create windows of Islamic products in existing institutions to meet the market's needs.

The objectives were manifold: to improve access to Morocco's banking system, to bring a new segment of users closer to banking institutions by trying to convince those categories of consumers who do not want to have contact with conventional finance and to attract foreign investment to make the financial institutions of the Arabian Peninsula more permeable and suitable in Morocco's financial and industrial systems.

In 2007, the first banking institution to market these instruments on the Moroccan market was Attijariwafa Bank. The Wafabank had started the dissemination of these products through the marketing of a real estate Ijara, a contract that allows the customer access to a property on a rental basis with the possibility of redeeming it at the end of the relationship with a duration of up to 20 years, available to individuals and companies.

Another bank that marketed Islamic products from the first hour was Banque Populaire, which introduced its own Ijara offer for cars. With this kind of contract, the customer undertakes to lease the asset and redeem ownership through the payment of rent, structured in such a way that ownership can be transferred to the customer at the end of the contract. Customers who pay an advance corresponding to 35% and 50% of the price of the vehicle, as an additional incentive, are not charged any extra fee for the distribution of the remaining value within the monthly payment.

Bank Al-Maghrib has pointed out every year since 2014 in its statistical report (Bulletin Officiel N° 7004 – 4 hijra 1442 of 15-7-2021 and its website) that only 5 of the 19 authorized banks (today, 2023, there are 22 of which 19 are retail banks with permanent establishments in Morocco) existing in Morocco had acted, especially concerning Murabaha and Ijara as in figure 1. This not particularly wide response demonstrated the low interest of traditional banking institutions in investing in a sector that was still considered a niche at the time and could only be achieved if accompanied by appropriate fiscal and legislative corrective measures given the low level of competition, some marketing errors and a fiscal and institutional framework that was not yet ready.

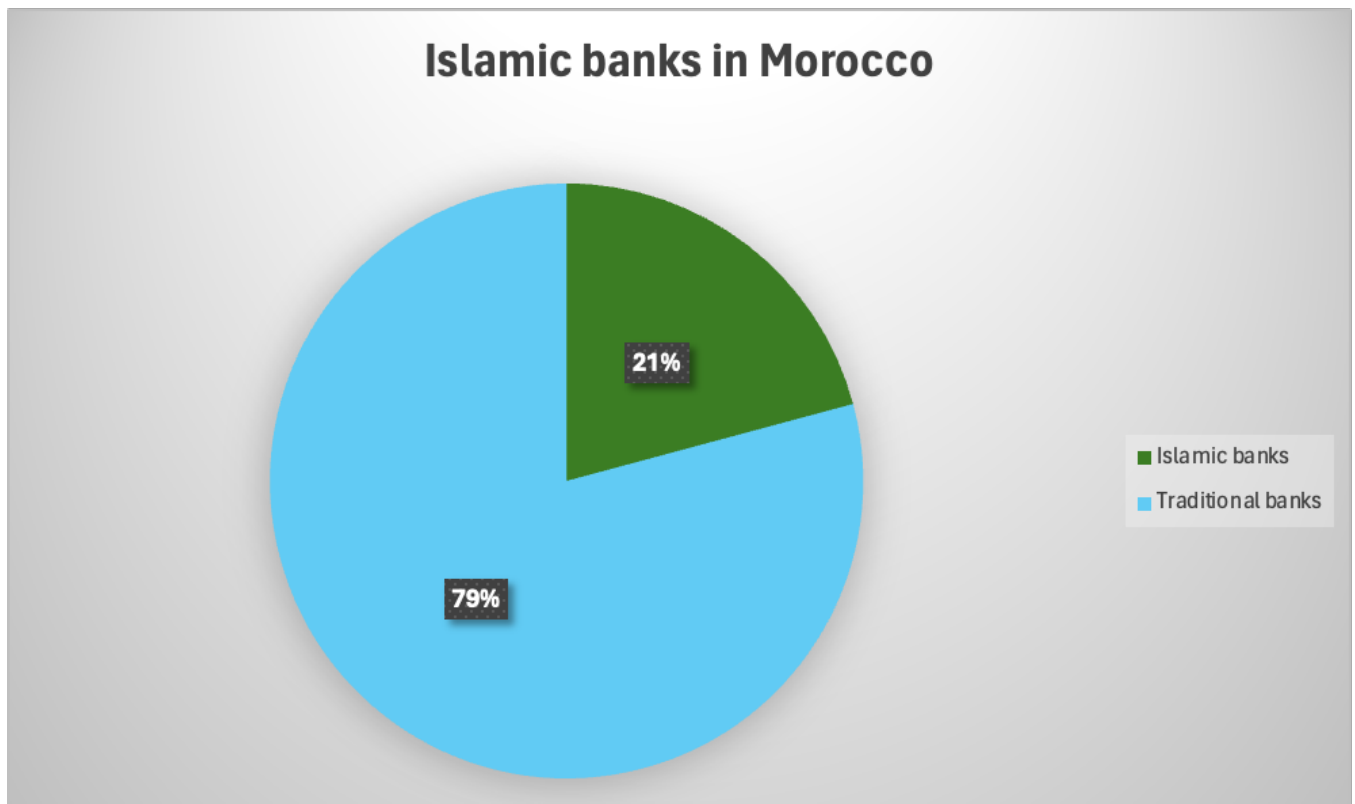


Figure 1 shows the percentage of Islamic banks in Morocco (in green).

Source: Central Bank of Morocco annual statistical report.

Despite surveys such as the one carried out in 2012 by Islamic Finance Advisory and Assurance Services (I.F.A.S.) and reported by (Nigrou, 2012), which found that 97% of Moroccans are interested in the Islamic finance sector (Chihab et Al., 2019), 9% of the sample had no bank account of their own for religious reasons and 31% would be willing to move from a conventional bank to a religiously oriented one. A subsequent questionnaire (Chroqui, 2018) submitted in 2014 to a sample of 583 individuals of different ages and social backgrounds found that 80% of the population involved would be interested in religiously oriented transactions. Around 60% of the sample also rejects banking interest for religious reasons.

In 2012, the government of Morocco took another step towards integrating Islamic finance into the Moroccan institutional fabric and towards the ethical control of economic exchanges, issuing a legislative act to regulate Sharia-compliant products by creating a central Sharia board that can operate nationwide.

The initiative of new legislation and the creation of a Sharia board are needed for compliance with the dictates of Sharia. They can attract foreign investors into the Moroccan banking market.

The renovated Institutional approach from Morocco allows foreign Islamic banks to operate in Morocco with a clear regulatory framework and a figure of reference, the Sharia board, who can guarantee compliance with the service offered to consumers that approach Islamically correct offerings.

In 2012, as Gallup (2014) reported, Islamic Banking was a niche market in North Africa.

The report measured the preference rate for Islamic banking services through additional questionnaires on the awareness, use and preference for these financial products in five countries in the MENA region (Morocco, Algeria, Tunisia, Egypt and Yemen). The survey results were based on face-to-face interviews with 1,000 adults aged 15 and older conducted in 2012. Adults in the sample declared 54% of their preference for “Sharia-compliant” banking in Morocco (Boulila and Ben Slama Zouar, 2014).



In 2015, further impetus to the development of participatory institutions came with a new Banking Law that granted Islamic banks de facto parity between ordinary credit institutions and participatory finance institutions and customers to open deposit and investment accounts in Islamic banks, introducing additional types of Islamic contracts such as Salam and Mudaraba.

Article 62 identifies the Superior Council of Ulama, to which we will return in the next section, as the body in charge of financial supervision and ethical control of the entire sector, the conformity procedure for financial products.

With the adoption of Law 103.12 (Law 103.12, 2014) on participative banks, Morocco's desire to proceed in an assimilationist direction about participative institutions is evident. This intention is highlighted even more by the subsequent enactment of Law 103.12 on participative banks, which is even more so by the subsequent issuance by the Governor of Bank Al-Maghrib of a circular on the operation of participatory products once Sharia compliance has been received from the Superior Council of Ulama. In 2017, testifying to the new course of Islamic finance in Morocco, authorization was granted for the opening of as many as five participatory banks: Bank Assafaa (born from Attijariwafa Bank); Bank Al Youssr (Banque Populaire); Umnia Bank (branch of Crédit Immobilier et Hôtelier); Banque Marocaine du Commerce Extérieur; Al-Akhdar Bank, created jointly with the Groupe Crédit Agricole du Maroc and the Société Islamique pour le Développement du Secteur Privé, to which are significantly added the openings of three Islamic windows, i.e. three Islamic participatory finance branches within traditional credit institutions, Nejma (Banque Marocaine pour le Commerce et l'Industrie), Dar al Amane (Société Générale), and Arreda (Crédit du Maroc).

In Morocco, supervision in the participative banking system is placed under two types of control: the Central Bank, with organizational and supervisory functions from a financial point of view, and the Superior Council of Ulama, established in 1981. The Superior Council of Ulama has been a constitutional institution since 2011, and it legitimises religious policy in Morocco. The Council carries out religious ethical control over the work of participatory institutions, which must remain within a moral, virtuous, and solidarity framework compliant with Sharia. Since the introduction of Islamic finance in Morocco, the Council has also dealt with Sharia compliance with Islamic banking and finance activities and products through religious, ethical supervision of Islamic financial products in the country. Interestingly, the intrinsic elasticity of Sunni Islam allows for not exactly expedients to circumvent the rules but alternative paths that can lead to the same goal.

Ulama in Morocco has always had considerable weight, dealing with the judicial machine, teaching and preaching and, above all, defending religion, being recognized as having the capacity to shape ideas and standards of behavior.

The King of Morocco presides over the Ulama's Council.

Decree 1.15.02 of 9/02/2015 created the Council of the Participatory Finance Commission. The purpose of this Commission is to ensure compliance with Islam's precepts regarding the products offered by banks. It issues opinions on the determinations issued by the Governor of the Central Bank of Morocco, the technical supervisory body, regarding products and insurance. The Commission consists of 9 permanent members who are specialists in Sharia and *fiqh* and five additional members who act as experts and assist the permanent members in carrying out their duties.

All Moroccan participatory or conventional banking institutions that intend to provide participatory finance services must have a Sharia board and a Sharia-compliance committee consisting of 4 to 7 experts, which may be permanent or meet periodically depending on the companies' bylaws. At the end of each financial year, institutions must send a report to the Sharia board, which gives an account of the activities carried out and the actions implemented to resolve the critical issues that have arisen. Institutions must report to the Central Bank of Morocco on Islamic compliance with their operations.

Through their internal compliance committees, the Banks must implement steps to ensure they can operate as participatory institutions in compliance with the regulations.

A fund called the 'deposit guarantee fund for participatory banks' was also created by Law No. 103.12 of 2014, which is managed by the "Société marocaine de Gestion des Fonds de Garantie des dépôts des bancaires". Through access to the fund, it is also possible, in exceptional cases, to intervene in favor of a bank in difficulty, either through aid or capital acquisitions.

### 3.2 The services of Moroccan Islamic banks

Bank Al-Maghrib published a circular in 2007 introducing and regulating the marketing of Islamic banking products (Ijara, Musharaka and Murabaha).

In 2007, The Moroccan Central Bank (BAM) agreed to become an observer of the Islamic Financial Services Board (IFSB)—circular no. 33/G/2007, signed by the Board of Bank Al-Maghrib, governs the use of these three "replacement" products and allows them to be marketed (Fakri et Al., 2024).



A few years later, the Central Bank opted for a gradual approach to creating an environment conducive to developing a participatory finance ecosystem. In 2013, it officially became a member of the IFSB.

Then, after years of waiting due to technical limitations and institutional and political constraints, Morocco finally defined a legal framework for participatory banking services in the Kingdom. For this motivation, two key measures have been implemented: the entry into force in 2014 of a new banking law that explicitly governs the activity of Islamic banks and similar bodies and the creation in 2015 of a national Sharia Board called the “Sharia Committee for Participatory Finance” (Fakri et Al., 2024).

This careful approach began with the introduction of Alternative Finance in 2007 and was confirmed by the Participative Banking Act chapter in 2014. In this sense, this paper aims to analyze the Kingdom’s inventory of fixtures as a newcomer to Islamic banking. The following work will attempt to identify the main strengths, challenges, and limitations underlying the paradigm of Islamic banking in Morocco (Rhanoui and Belkhouit, 2017).

Dar Assafaa, an operator in the alternative finance market, started with a DH 50 million fund specializing in Islamic finance.

Its mission is to provide Sharia-compliant financial banking services. It offers a range of financing formulas and banking related explicitly to account management (account opening, chequebook, ATM card, etc.) It markets i.e. Murabaha, Musharaka and Ijara. However, the marketing of these products has failed to break out of a market niche (El Mezouari et Al., 2013); in their analysis, they give some reasons, some of which we feel we share and expand upon:

- the double transaction of the purchase contract by the bank and the resale to the customer, and this implies more difficulties and higher costs than a traditional bank;
- the lack of competition (Ghannadian & Goswami. 2004);
- the lobby of traditional banks is also the cause that holds back the marketing of these new products and the entry of new Islamic banks;
- lack of political push after an initial euphoria of financial operators;
- lack of skills and training in the sector;
- Marketing is not preponderant compared to other business units of the bank, which does not help with the development ambitions of these activities.

The government attempted to develop training programs and partnerships with various international bodies specialized in supervising and regulating participation in the finance sector and promoting international management standards and specific best practices. It has also eased the tax burden since 2010 for Islamic financial products with the concept of tax neutrality.

Despite these actions, they still lack traditional finance economies of scale, and Islamic banks prefer to finance their customers through sales and leasing contracts. In this way, they can limit the risks incurred to the risk of customer insolvency. Partnership instruments are generally reserved for customers with a proven track record and repayment capacity, effectively restricting the pool of potential customers.

Morocco, thus, still lags behind other Gulf Arab countries in terms of participatory banking. These Islamic financial products have failed to convince the majority of Moroccans, and their presence has been limited by a lack of awareness, knowledge, communication difficulties and the absence of a regulatory framework. As proof of this, only a few European banks offer Sharia-compliant products in Morocco with Islamic product windows, and few have organized themselves as participatory banks. Spanish banks, for example, do not provide Sharia-compliant products, and Credit Agricole has only set up a participative branch out of the French banks.

The heavy backlash of the last international economic and financial crisis 2008 and consumers’ desire for Islamic-compliant banking services are forcing Moroccan financial institutions to face a reorganization to present a banking service compatible with the expectations of those seeking Sharia-compliant products.

We find that there is also an issue related to the dualism of the mission of Islamic banks.

Indeed, participatory banks play two primary roles in Moroccan society: charitable organizations and economic entities with profit motives, selling goods and financial services.

Finally, the participatory bank in Morocco has a dual commercial and financial vocation; this new bank in the local market participates in project creation, transformation, commercialization and wealth.

Boularas Nabil, in “The Impact of Religion on the Banking Sector in the Morocco Case of Participatory Banks”, proposes the variables that influence consumers’ choices concerning the participatory financial system (Nabil, 2019). In his article, we find two variables in choosing an Islamic bank: personal and psychological.

Personal variables are:





- Age and life cycle: a participatory bank is so innovative and creative that it attracts young customers.
- Occupation and social position: sources of knowledge, such as occupation and hierarchical position, can also influence the decision process.
- Personality: psychological characteristics generate a regular and stable response pattern for certain people. Psychological variables are:
  - Motivation: The choice of a participatory bank would be for a Muslim as much as a religious act as a simple transaction or service. For Muslims, the choice of a participatory bank or service is directly dependent on their Islamic values.
  - Beliefs and attitudes: the degree of religious favor and practicality strongly influences a Muslim customer's choice of a bank or participatory service.

Islamic banks of Morocco need to focus on better communication and promotion based on effective market segmentation to attract the attention of Muslim and non-Muslim customers—information campaigns through symposiums and conferences. At the same time, these participatory banks must offer new services through FinTech to meet customers' expectations and needs.

Despite what can be improved in the institutional framework for the diffusion of Islamic finance, Morocco has a reasonable basis for disseminating these financial instruments. Indeed, as the authors Rhanoui and Belkhoutout recall, Morocco has several strengths to accommodate Islamic banks in its country, such as a Muslim population, a perfect geographical location, and a favourable economic environment (Rhanoui and Belkhoutout, 2017).

Thus, after the launch of the first Islamic finance products known as alternative products, the monetary authorities expected to attract many customers interested in this type of product. Still, the expected results have not been seen in the Moroccan market. Six years after the launch of these products, they have even declined over time (Zahid and Ibourk, 2014).

The causes of this failure are different and are investigated by the Moroccan financial literature:

Bank Al-Maghrib, in collaboration with the Professional Group of Moroccan banks (GPBM), has drafted a “tutorial” that sets out the guiding principles of communication on these products and insists on the prohibition of religious mentions, as well as the language adopted by customer service staff.

These actions and restrictions confirm the Moroccan monetary authorities' sensitivity to these new forms of banking.

It is a strict condition that hampers the marketing of alternative products that could hardly be sold without this “halal” label. Furthermore, advertising to promote alternative Islamic bank products has been insufficient or almost rare, lacking brochures, posters and billboards. Moreover, the media did not report on them (El Omari Alaoui and Maftah, 2012).

Similarly, the distribution of these Islamic products was through the structure of conventional banks with an Islamic window, which in turn were not in favor of selling them under their brand, perceiving such products as a threat to their business (Zahid and Ibourk, 2014).

Another issue regarding Islamic windows in Morocco is the moral perception of the Islamic branch. Even banks with conventional Islamic product windows are identified by Moroccan customers as usurious banks. Therefore, any product launched by these entities is perceived as not complying with Sharia law, so a certain customer does not trust them. Thus, strengthening both the banks' communication and the Ulamas' committee and control would be interesting in improving the reputation and name of traditional banks offering Islamic product windows.

Murabaha is considered the product with the most significant scale and success since these Islamic financing methods were launched in Morocco. In terms of value-added tax (VAT), the Murabaha contract is subject to a 20% rate applicable to both the repayment of principal and the profit margin and thus treated as a commercial transaction instead of the reduced 10% rate applied only to interest on conventional loans granted by traditional banks (Attak, 2018). The Murabaha product is also subject to a double taxation of 4% when the bank purchases the asset and resells it to its customers (Attak, 2018). Moreover, the recovery of credit (VAT) from the bank is also a problem for the latter. The bank buys the product at the rate of 20% and transfers it to its customers at 10%. This difference represents a tax credit for the bank that the government should return to; however, since the government is a “bad payer”, the bank always finds it difficult to recover (Nghaizi, 2013).

This lack of tax neutrality towards alternative products is one factor that has led to the high cost of these products. Islamic products are two to three times more expensive than conventional products.

In Morocco, the Islamic financial sector has not been supported by a clear position of (SCU) members on the proposed financing solutions. The issue of the compliance of alternative products with Sharia law has created a divergence of opinions and divided the members of the (SCU) into two clans: moderates and strictest. On the one hand, the former seek to follow contemporary socio-economic changes that require adaptation and flexibility in applying religious principles (Nghaizi, 2013). They rely on basic financial rules to justify their choice. On the other hand, more orthodox Ulamas argue that even if the



structure of these products is Sharia-compliant, they cannot be considered *halal* from a religious point of view since their sources come from conventional banks that do not comply with Sharia rules. Only four banks (Banque Populaire du Maroc (PB), Banque Marocaine du Commerce Extérieur (BMCE), Banque Marocaine du Commerce et de l'Industrie (BMCI) and Attijari WafaBank (AWB), have accepted the marketing of alternative products, and these same banks do not market all authorized alternative products (Mallouli & Sassi, 2020)

Changes in the political environment with the arrival in government of a more Islamic values-oriented political party called the Justice and Development Party (JDP) have brought a new spring to Islamic finance in Morocco. Indeed, the Islamic political formation has expressed willingness to authorize and push the creation of Islamic banks in Morocco. As a result, several foreign requests from renowned banking groups have been addressed to the Moroccan authorities to negotiate the establishment of their services to benefit Moroccan customers.

Participatory banks in Morocco have been operating for two years despite the lack of this type of insurance. Only in August 2019 was Law No. 87-18 published, amending and supplementing Law No. 17.99 on the Insurance Code and introducing *Takaful* insurance. *Takaful* insurance is an Islamic contract to which people subscribe and agree to pay a joint contribution. If a risk occurs, the sum of these contributions, called the “members’ fund”, will be used to compensate victims. The insurance company *Takaful* manages these funds in return for a management fee. All products part of a *Takaful* insurance contract must comply with the Sharia and thus be validated by the Supreme Council of Ulama.

After the 2012 study by Islamic Finance Advisory and Assurance Services (I.F.A.S.) 2012, which found that 97% of Moroccans are interested in Islamic finance, (Boulahrir, 2018) conducted a study on the prospects of establishing Islamic banks in Morocco. His study covers 581 people from different demographic and professional categories.

He conducted a field survey to quantify the potential Moroccan market and the prospects for establishing Islamic banks. For Boulahrir to carry out his study to identify strengths and weaknesses, opportunities and threats, the interviews took place face-to-face in 17 towns across the kingdom, and the questionnaire consisted of 47 questions. This will give an initial idea of the market’s potential and capacity to welcome participative banks.

On the one hand, this study reveals that 36 per cent of the sample does not bank due to religious convictions, while 34 per cent cannot bear the costs exerted by the conventional banking system. On the other hand, Moroccan consumers do not seem to be satisfied with the bank loans offered by traditional banks. Indeed, in addition to religious beliefs that prohibit the use of interest, consumers are limited by the high transaction and practical activation costs, complicated administrative procedures, necessary guarantees or even the long credit disbursement times. This last point was also affirmed by (Aaminou and Aboulaich, 2017), who confirmed that convenience in terms of prices, proximity of branches and quality of services are essential for adopting Islamic financial institutions.

Due to the high transaction and practical activation costs, complicated administrative procedures in Islamic banks are “being asked to develop more rigorous risk identification and management systems” (Drissi and Angake, 2019).

#### 4. Description of the Moroccan banking market and services offered by traditional and Islamic banks

Because of the specificity of Islamic finance in a context like Morocco, the resources of banks and participatory branches have evolved significantly since their introduction in the country to date. Indeed, customers’ demand deposits (including *Hamish Al Jiddiya*) increased from 671 million dirhams at the end of 2017 to 1.665 billion dirhams at the end of 2018, an increase of 148% in one year. These deposits reached 2.8 billion dirhams at the end of December 2019. As of March 2020, these deposits decreased slightly and amounted to 2.7 billion dirhams.

Customers’ investment deposits at these institutions increased from 23 million dirhams to 335 million dirhams between June and September 2019 and then to 478 million dirhams in March 2020.

Between 2000 and 2015, the Moroccan banking sector went from 21 banks in 2000 to 16 banks in 2006 and to 19 banks in 2015, returning to 21 today, as reported by the “Moroccan Deposit Insurance Corporation”, which is responsible for protecting customers in the event of credit institutions’ difficulties (19 those with permanent establishments reported by central banks). Mergers and acquisitions, new licenses and changes in ownership structure characterized this period. On the whole, thanks to the policy of de-compartmentalization of banking activities, which began in the 1990s, Moroccan banks have adopted a new “universal bank” business model. Similarly, the state’s share in the banking sector decreased following the sale of part of its stakes in *Crédit Agricole du Maroc* and *Crédit Immobilier et Hôtelier* and all of its commitments in the capital of the *Banque*



Centrale Populaire in favor of new foreign equity investments in Moroccan banks. At the end of 2015, the Moroccan banking sector comprised seven banks with a majority of foreign capital and five with a majority of public capital.

The central bank, Bank Al-Maghrib, also called on Moroccan banks to adopt rules for syndicating loans exceeding a certain threshold to pool risks and reduce loan concentration.

Consequently, the analysis of banking competition also calls for examining the barriers to entry into banking, particularly the conditions for granting authorization, transparency of banking practices and information on loans.

We have analyzed the Moroccan banking system in detail, coming up with the following evidence about its peculiarities, which we list below. This analysis was done systematically by comparing the banks' services, ownership, and materials made available by the banks.

The Moroccan system consists of 19 banks in the Morocco Central Bank annual report on its website, as indicated in Table 1.

		2021	2023	2023
<b>Banks in Morocco</b>		<b>19</b>	<b>19</b>	<b>19</b>
	Banks with predominantly foreign capital	7	6	6
	Banks with mostly public capital	5	5	5
<b>Participatory banks in total</b>		<b>5</b>	<b>5</b>	<b>5</b>
<b>Participatory banks with foreign capital</b>		<b>3</b>	<b>3</b>	<b>3</b>

Table 1. *Banks in Morocco: The table is elaborated on from the Moroccan Central Bank (Bank Al-Maghrib) data.*

At the time of the paper's elaboration, we found a strong French presence with BNP Paribas and Société Générale. There is a lot of competition from neighbouring countries. There are several foreign groups: French and Spanish, but also from Arab countries (figure 2).

## Banks with majority of foreign capital in Morocco

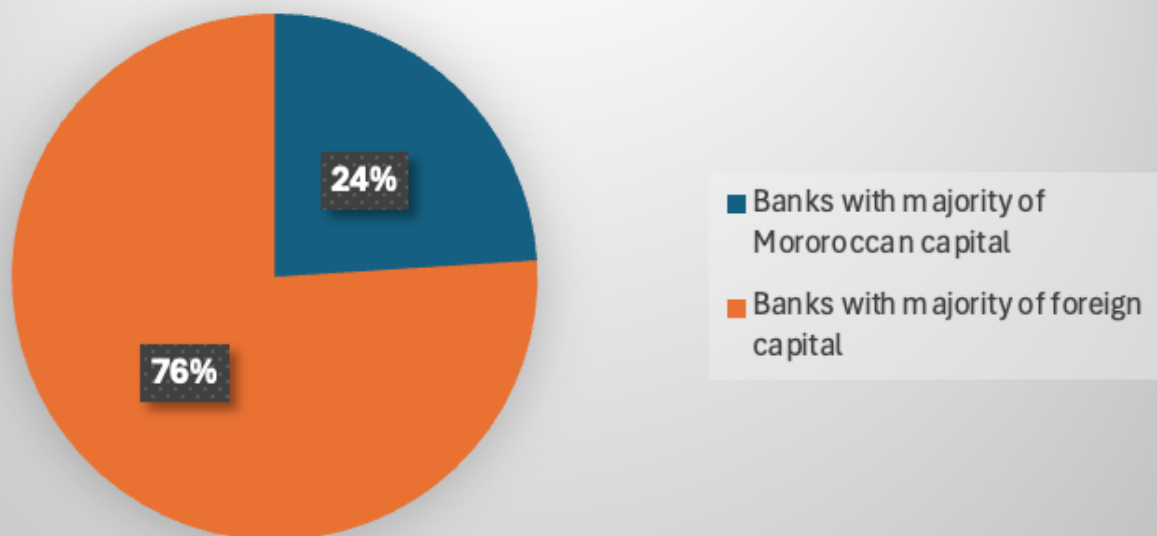


Figure 2 Banks with the most foreign capital in Morocco in 2023 (24%).

There is a well-differentiated Islamic and traditional offer. Communication from banks is in standard Arabic, vernacular Arabic and French (as a business language) but also, to a lesser extent, Spanish (for Spanish banks) and English, specifically for investment banking. Compared to other mapped countries, the system offers a more significant presence of foreign groups and Islamic and traditional products. Morocco also shows more significant aggregation among banking institutions, such as Banque Populaire and the Islamic bank Banque Assafaa. The presence of foreign groups from the Gulf, Jordanian, and American, but mainly French and Spanish, are involved in traditional and Islamic finance, and they use different licenses to operate. Foreign groups offer two distinct brands for Islamic and traditional products: one offers traditional services, and another offers Islamic products, e.g. BMCI (BNP Paribas) and Najmah Islamic Bank.

We found that traditional banks offer the following services: loans, investments, current accounts, overdrafts for SMEs, home insurance, health, capital goods and supplementary pensions. Moroccan merchant banks offer investment, fund management or advice to the government and large Moroccan or foreign companies such as Citibank. French is often used for traditional banks' loans, investments, and pensions. French and, to a lesser extent, English remain the languages of Moroccan merchant banks. The pervasiveness of Arabic also applies to marketing, especially for Islamic banks. Still, French is always present on websites, and communication of services is also offered in French for Sharia-compliant products.

Given the presence of an Islamic offer in Morocco, it could be interesting to involve those segments of the population that are still refractory to the financial system; this comparator could involve legal experts such as the Ulama to include an Islamic certification of financial products.

The main contributions of the topic of our paper in terms of literature are the surveys provided on the diffusion of Islamic finance in Morocco. As reported by (Chihab et Al., 2019), surveys such as the one carried out by Islamic Finance Advisory and Assurance Services (I.F.A.S.) in 2012 found that 97% of Moroccans are interested in Islamic finance. In the same year, 2012, the government of Morocco issued a legislative act to regulate Sharia-compliant products by creating a central Sharia board that can operate nationwide.





El Mezouari et Al. (2013) affirm that a minority of Moroccan banks have an Islamic window or a licence for selling Islamic products. Furthermore, they state that the marketing campaigns of these Islamic products have failed to break out of a market niche. In their analysis, which we share, the main reasons mentioned are:

The considerable cost of the double transaction of the purchase contract by the bank and the resale to the customer, as mentioned in our analysis;

The lack of competition and concurrency for new Islamic banks;

Lack of political push after an initial euphoria of financial operators on Islamic banks;

In some markets like Europe, the sector lacks skills and training (Dewa and Zakaria, 2012).

The main practical contributions come from (Chihab and Lakhyar, 2019), who affirm that there is a low percentage of people (9%) who have no bank account of their own for religious reasons, and 31% would be willing to move from a conventional bank to an Islamic oriented one. The results show that over 30% of clients are eager to switch to a genuinely Islamic bank under certain conditions.

Another similar study from Boulahrir's, published in 2018, reveals that 36% of the sample does not bank due to religious convictions, while 34% cannot bear the costs exerted by the conventional banking system (Boulahrir, 2018). The changes in the two studies do not depend on a simple temporal evolution but rather on the fact that from 2012 to 2018, the legislative framework on Islamic finance in Morocco has profoundly changed, as we pointed out in the literature review.

Banks themselves fear the reputation of Islamic banking products, and some potential customers feel Islamic Windows are not fully compliant with Sharia since it is the same financial institution that deals with traditional and Islamic banking products.

#### 4.1. Overview of FinTech in Morocco

We decided to systematically analyse innovative FinTech services in Morocco in both traditional and Islamic banks for the first time in the literature to map the modernity of the Moroccan banking system.

The central bank, Bank Al-Maghrib, is also involved in promoting and monitoring FinTech techniques. For Bank Al-Maghrib, Islamic finance is a matter of stability and regulation, managing traditional finance and new FinTech techniques. For the Treasury, this type of finance represents a financing challenge insofar as *Sukuk* Islamic financial certificates offer a way to diversify its funding sources for weak or unbanked groups and an adequate means to meet its liquidity needs.

In Morocco, "Transformations related to digital technology are initially of three orders: automation for the mechanical reproduction of a sequence of actions using a program, dematerialization for the replacement of material media by computer files, and disintermediation for the elimination of intermediaries made possible by digital technology" (Ait Ouhammou, 2019). Islamic finance is part of this veritable perpetual evolution that FinTech is experiencing today, particularly in Southeast Asia, Malaysia, and Indonesia. Consequently, "conventional" FinTech and Islamic FinTech share a similar definition. The main difference is that Islamic FinTech must follow Sharia guidelines. Islamic FinTech's size is quite limited compared to the conventional FinTech landscape (Kharrat et al., 2024).

The Islamic version of FinTech can be seen as the provision of Islamic finance products with the use of technology or, in simpler terms, the digital provision of advanced Islamic finance products. The difference between Islamic FinTech and FinTech lies in Sharia. Islam accepts any innovation if it does not break the ethics and principles of Sharia, as explained in (Alfawzan et Al. 2024). This positive effect of innovation is consistent with the view that the Prophet had said: "The person who tries to make a permissive innovation in Islam is rewarded as well as that person's followers until the Day of Judgment" (Al-karasneh and Saleh, 2010). This Hadeeth is the basis for the role of permissive innovation in Islam. Furthermore, innovators frequently require faith in developing and generating ideas throughout innovation. It is important to recall that innovation often involves belief in the supernatural and the need to present exceptional ideas (Walter et al., 2011).

The second link between religion and innovation is network building, which is vital for effectively functioning communities and societies (Maillat and Lecoq, 1992). Even the most critical scholars, such as Ercanbrack, who critically considers attempts by Sharia scholars to square these innovations with traditional conceptions of Sharia law, suggest that innovations will continue to be developed within the permissible channels of Sharia authenticity but concedes that this is a somewhat strained interpretation of classical Sharia (Ercanbrack, 2015). Moreover, religious communities constitute a primary marketplace for exchanging ideas and creating partnerships and associations. These elements support innovation (Dakhli and De Clercq, 2004). There is also to consider that globalization is a favorable context for unfolding Sharia's ordaining ambitions (Aluffi, 2022).



Although Islamic FinTech is still very limited in number, scale and size compared to traditional FinTech, it may grow better with this technology, especially in areas where Islamic banks are present. Concepts such as blockchain, cryptocurrency, crowdfunding, and peer-to-peer are increasingly penetrating the common language of the banking business; even Islamic finance is affected by this revolution (Biancone et al., 2019). An example of these principles is that any FinTech product or service is permissible and acceptable in Islamic finance if it is established that it does not violate or contradict any principle prescribed by Sharia. In other words, any technology is welcome in Islam if no clear evidence prohibits it.

As Mohd Haridan et al. reported, Sharia or Islamic law never limits companies from introducing a new financial product as long as it fulfils all the Sharia principles and criteria. It is essential to consider the benefits of FinTech in enabling the current system and business functions to operate faster and in real time. FinTech is a medium that can fill the social gaps (human needs) and enhance the Islamic economy (Mohd Haridan et Al., 2023). Miroslav Kamdzhlov provides one example of filling the social gap through Islamic FinTech: “Good application of the blockchain could also be observed in Zakat administering. Zakat is one of the main pillars of the Islamic economy and the basic principle of distribution of social goods. It relies on both approaches - voluntary in the form of alms and obligatory, to tackle poverty and social inequality” (Kamdzhlov, 2020).

The benefits of FinTech applied to Islamic finance have also been studied in Kazakhstan, showing that the market needs new players with new financial products and technologies. As reported in the paper, “In general, according to the interviewees, in the long term, the development of the Islamic finance market will be determined by new financial technologies, the Islamic FinTech industry. But in the short term, it is necessary to open Islamic windows in conventional Kazakh banks that significantly expand the client base, increase awareness and demand for Islamic finance among businesses and the population” (Nagimova, 2023). Fintech enables a mobile user experience via smartphones that is fast (e.g. instant payments), automated and personalized, and accessible virtually anywhere with 4G-LTE cellular coverage.

The services provided by both Islamic and traditional banks mainly concern payments and account control.

The Moroccan Capital Market Authority (AMMC) or *Autorité Marocaine du Marché des Capitaux* (AMMC) in the FinTech portal attaches great importance to financial innovation and devotes a significant place to it in its strategic plan. In this context, AMMC is interested in Fintech and the transformations it implies in modern financial markets.

The AMMC in the FinTech portal on its website also provides a forum for the dialogue - between the Authority and Moroccan financial institutions and any financial intermediaries - concerning new FinTech services through an electronic window.

The services we have mapped regarding Moroccan FinTech are transversal to traditional and Islamic banks, as shown in Figure 3:

- creating electronic wallets for Postman’s payments, telephone top-ups, merchant payments, etc.
- development of applications: bank-to-bank transfers, real-time balance enquiries, chequebook orders, contact with advisers, finance simulations, bill and tax payments, advisor, finance simulations, bill and tax payments.

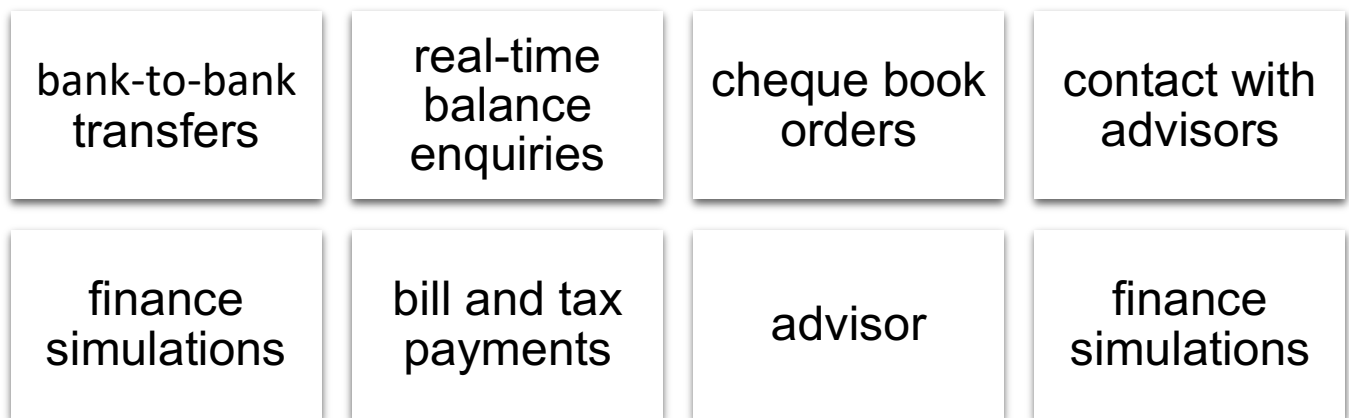


Figure 3. Fintech applications in Morocco

Source: Re elaboration of data provided by our mapping of FinTech services provided by Moroccan banking - through Moroccan banking institutions' websites.

These new services make it possible to reach geographically remote customers, secure digital transactions, and secure e-commerce. It should be noted that French branches of Moroccan banks have implemented advanced fintech services entirely French from those of French banks. Even nationally controlled banking groups have not lagged in the technological implementation of financial services.

## 5. Discussion

Automating processes through more efficient technology also lowers costs, enabling cheaper and faster customer services suitable for the younger generation. The advantages of modern financial technology and traditional financial service providers can be combined through cooperation with start-ups. For instance, while banks provide capital and customers, FinTechs can offer faster, modern service quality and innovative products.

FinTech for Moroccan banks mainly includes online loan applications, home, app banking, chatbots and fast payments. The FinTech services are focused on home banking, equity crowdfunding, app banking, and rapid payments for Islamic banks.

For cost reasons, Moroccan-owned banks tend to aggregate to provide FinTech services as the Banque Populaire group has done—the level of financial digitalization of indigenous banks as FinTech services is on par with French banks. Mobile payment services, financial information portals and innovative online banking services demonstrate the ability of FinTech companies to present the voice of modern financial services to major players in the sector. Banks of Morocco are also opening up to “open banking” to offer customers a new user experience via apps, as banks open up some of their data to third parties via APIs, e.g. payments or reward programs.

Morocco faces significant challenges to achieve a better and more efficient digital transformation. Start-ups and big techs are revolutionizing the world of finance and developing innovative and disruptive banking and financial services. Digitalization is, therefore, a strategic priority and must be so in particular in a demographically young market where remittances play an essential role as Morocco does. Suppose the institutional system, the Moroccan financial ecosystem, cannot keep up with this wave. In that case, the government needs to create regulations so that traditional FinTech and specifically ‘Islamic’ FinTech can be developed, a sector that the authorities can broadly develop. A push in this direction will be needed from the central bank and the Ulama’s council.

As we have seen, religion in Morocco is an essential component of the Country’s culture. Islam is certainly not an obstacle to the development of technology in finance and the modernization of the Moroccan financial system. Products related to the



use of FinTech are always allowed if we think about the underlying information technology. In particular, Morocco's domestic and Islamic offerings focus on payments and money transmission transactions.

Moroccan banks are not lagging in offering digital services, which is a relevant fact. Some Moroccan banks, even state-owned ones, are at the same level in digital finance as French groups such as Credit Agricole. Moroccan banks offer a comprehensive portfolio of products ranging from traditional ones, i.e. loans and payments, to participatory windows and pension and insurance plans on capital goods and special life events. These include purchasing capital goods, weddings, children's education, health insurance and supplementary pension financial products.

The services of Moroccan banks are provided in French and Arabic language. In English, they mainly deal with institutional entities. There is a lack of customer interaction through the Berber language in its Moroccan variant in traditional services and FinTech.

The regulatory issue for central innovation features broad offers but is challenging to compare.

While FinTech services per se, understood as the use of advanced technology to make financial transactions more efficient and faster, are always allowed, this is not the case for financial products that benefit from FinTech.

It is worth noting that despite the government's push for the emergence of an Islamic financial sector, Islamic banks do not exceed five units, a sign that there are still ample regulatory steps to be taken to make the industry attractive to both customers (or prospective customers who are now unbanked due to religious beliefs) and financial investors.

It is not only the government that will have to insist more on participatory finance, but the banks themselves will have to find new channels and attractive applications through marketing to engage customers.

Interestingly, several traditional banks, including French banks, have been willing to try the route of selling Islamic financial products. These banks have both an Islamic window of products but maintain a preponderance of traditional offerings.

Our contribution shows a strong French presence with BNP Paribas and Société Générale. There is a lot of competition from neighbouring countries. There are several foreign groups: French and Spanish, but also from Arab countries.

There is a well-differentiated Islamic and traditional offer.

Communication from banks is in standard Arabic, vernacular and French (as a business language) but also, to a lesser extent, Spanish (for Spanish banks such as Caixa Bank) and English, specifically for investment banking.

Compared to other mapped countries, the system offers a more significant presence of foreign groups and Islamic and traditional products.

## 6. Conclusion

In Morocco, there is a complete offer at the financial level. However, there is still room for improvement in the transparency of the offer, especially in its accessibility, concerning Islamic finance products.

In European countries, banks want to meet customers' needs for transparency and comparison between traditional and new Islamic finance products.

As Islamic banks lack transparency, customers are unsure how ethical their investments are. The Bank needs to ensure that all stakeholders are correctly and adequately protected, that corporate governance is adequate to the status of Islamic banks and that it is not mitigated. Hence, unlike conventional counterparts, Islamic financial intermediaries bear a heavy moral burden to ensure that banks run their affairs with complete transparency. This attention to customers' ethical needs ensures that they are aware that these financial institutions pay full regard to the above basic principles and that financial institutions do not cheat them. It is precisely the attention to the ethical needs of customers that reassures them and prevents them from having doubts and suspicions, as described by (Faizullah, 2009).

Aioanei explained that Islamic banking in Europe has challenges to be met in terms of compatibility with local banking markets, product development and strict anti-money laundering rules; acting as European banks, newly established Islamic banks, as newcomers, will have to face criticism about their possible link with terrorism support and money laundering (Aioanei, 2007).

Belouafi and Belabes underline the necessity in European markets such as the UK and France of some key points about governance and transparency:

- The role of the Sharia advisory board and if it is going to interfere and overlap with that of the managerial committee, the shareholders and the general assembly of the institution;
- Standardization of products and accounting information;





- Transparency, clarity, information disclosure and the promotion of products and services (Belouafi and Belabes, 2010).

Also, Masiukiewicz underlines the shortage of qualified Sharia scholars and the unsatisfactory standardization of Islamic financial products and accounting policies. International Islamic finance institutions (incl. AAOIFI and IFSB) play a significant part in overcoming them (Masiukiewicz, P. 2017).

The transparency and comparability of products with those existing in European markets are essential for the significant development of Islamic finance in Europe.

Regarding Italy, although we do not even have Islamic finance legislation, there seems to be a potential demand for Islamic financial and banking activities (Gimigliano, 2016).

Numerous benefits and opportunities for Italy could be generated to attract Arab sovereign funds to invest in Italy.

That is a huge opportunity; the liquidity that could be generated is of great importance, besides creating employment opportunities that could derive from Arab funds.

Another positive impact would be on the immigrants' integration policies by providing them with a Sharia-compliant financial system on the one hand and benefiting from their funding liquidity on the other hand (Biancone, P., & Radwan, M. 2014).

Another author, Opromolla, states that inspiration could be found in the solutions set forth by the legal system of other European countries, referring specifically to banking and investments. Practitioners and academics should not forget that a dedicated banking law and regulation regarding Islamic finance products is still missing in Italy and that the current Italian legal banking framework is not yet suited for fully harmonized Islamic banking. Nevertheless, there are no insurmountable barriers to establishing an affiliate of an EU Islamic bank in Italy, thanks to EU regulations. Using EU regulations could be the concrete way to foster the entry of Islamic Finance into the Italian context (Opromolla, 2012).

The growing importance of the Halal market and the Islamic banking and finance sector makes the theme treated a theme of extraordinary topicality. As has been pointed out in the paper, the study of the challenges - but especially of the opportunities offered by the opening of this market - do not only (or not so much) contribute to strengthening the safeguard of Muslims by guaranteeing them access to the financial and banking sector by Islamic principles, but also and above all contribute to providing Western economic systems with the tools to know and exploit the growth potential offered by Islamic finance. This is especially true for Italy. Although Italy provides a fertile and flexible legal environment, *de facto*, Islamic banks have not yet been established in the Italian territory due to the lack of dedicated banking laws and regulations. Further research on reconciling Islamic banking with EU regulations and the Italian banking system is needed. Implementing regulation regarding Islamic finance opens the opportunity to create automated compliance systems by design.

Despite fully-fledged legislation, our mapping of services of Moroccan banks also shows that only a minority of banks in Morocco have decided to open an Islamic window or a full-fledged Islamic bank. The only ones that have taken up this challenge are two very well-capitalized French institutions such as Société Generale (which is, however, getting rid of its activities in Morocco) and BNCI (BNP Paribas). On the other hand, consumers of Morocco do not seem to be satisfied with the bank loans offered by conventional banks. Indeed, in addition to religious beliefs that prohibit the use of interest, consumers are limited by the high transaction and practical activation costs, complicated administrative procedures, necessary guarantees or even the long credit disbursement times. This last point was also affirmed by Aaminou and Aboulaich in 2017, who confirmed that convenience in terms of prices, proximity of branches and quality of services are essential for adopting Islamic financial institutions.

The literature also demonstrates that due to the high transaction and practical activation costs, complicated administrative procedures in Islamic banks are “being asked to develop more rigorous risk identification and management systems” (Drissi and Angake, 2019).

Improving services and risk identification could be a booster for Islamic fintech to include unbanked people for religious reasons and fill the poverty and financial inclusion gap through the technology applied. It also reduces the transaction cost because Islamic banks are asked to develop more rigorous risk identification and management systems.

In some Asian markets like Indonesia and Malaysia, it is demonstrated that Zakat is one of the main pillars of the Islamic economy. The basic principle of distribution of social goods is a valid application of Islamic Fintech and particularly a good application of blockchain to monitor transactions and “ tackle poverty and social inequality” (Kamdzhlov, 2020).

The benefits of FinTech for Islamic finance have also been studied in Kazakhstan, showing that the market needs new players with new financial products and technologies. As reported in the paper, “According to the interviewees, in the long term, the



development of the Islamic finance market will be determined by new financial technologies, the Islamic FinTech industry.” (Nagimova, 2023).

There is excellent potential for the diffusion of Islamic banking and FinTech in EU countries with flourishing Islamic communities, such as France and Italy. Although according to the literature (Belouafi and Belabes, 2010), France is ahead in expanding the Islamic finance market. However, it's a complex matter to adapt a financial Islamic system to the EU's rules.

Based on the analysis (Ferrari, 2002) concerning law and religion, the question of the legal status of Islam in Europe is linked to multiculturalism and identity.

Our analysis explained how Morocco's peculiarities in legislation and the spread of innovative services could propel Islamic finance in Europe. Mapping Moroccan financial institutions and technologically advanced services such as those related to fintech represents a novelty compared to the literature.

The limitation of our study is that we have not yet implemented a sample into Moroccan banks because it is necessary before taking such action to conduct a preliminary exploration of this topic. Creating a sample and a purpose that investigates the preferences of the client, especially individuals and SMEs, about banking and fintech offers in Morocco but potentially in EU's Muslim clients could show new business opportunities to digitize services and automate compliance in Islamic banking. Another limitation of the study is that, as pointed out earlier, the exportation of Morocco's results and, thus, good practices in disseminating Islamic finance to serve Muslim customers in Europe has limitations. The first and most significant limitation is the entirely different legislation between the other countries.

All results would necessarily have to be adapted to the local context, especially about legislation. However, as in Morocco, Muslim communities may be receptive to even technologically advanced Islamic financial products such as those provided through FinTech.

As we have expressed and emerged from the literature (Drissi and Angake, 2019), a further limitation to the diffusion of Islamic finance is the lack of stricter risk controls and the necessity of complete client identification. This is one of the reasons why Islamic finance is not at its full potential in Morocco. We would therefore like to propose a solution based on modern technologies to overcome this problem through the implementation of RegTech, Regulatory Technology. So, technology could be - as it is in Europe - adapted to automatize regulation compliance through AI, helping with risk management and the client onboarding process. RegTech does not directly provide new revenues, as FinTech payment services do, but saves costs and time for the incumbent and only indirectly for the customer (Battanta and Magli, 2023) by automating the onboarding and identification processes.

RegTech could also face risk management and compliance issues in Italy (Battanta et Al., 2020). We also think that the expansion of Islamic finance to include Muslim communities in European countries financially could be accomplished through the innovation provided by FinTech and RegTech. This is a possible development in terms of future research that we are also examining, not only to improve transparency and develop more rigorous risk identification and management systems in the Moroccan system but also for markets that do not have a developed Islamic offer. To improve risk management and compliance, financial institutions could be equipped with a comparator of bank offers and bank web pages as a traffic light for Islamic compliance.

In our vision, such a traffic light regulating Islamic compliance with financial products would be inserted in banks' apps and websites. It could differentiate financial products by applying different colors: red = *non-compliant*, yellow = *critical*, and green = *compliant*. The automated system could then propose Islamic-compliant alternatives, thus improving the accessibility and transparency of the financial system through RegTech technology. Implementing such a traffic light could be helpful in terms of risk management regarding Islamic finance products and automated verification of Islamic compliance with financial products via exploiting the machine learning and artificial intelligence inherent to RegTech.

This technological implementation within the Islamic banking sector could help banks reduce cost risks and improve their marketing. Such technology could be a potent tool for Islamic finance regulatory authorities to enhance the inclusion of Muslim citizens in Europe and the MENA region and improve risk management and client profiling.



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