
Deposit and Financing Facilities in Islamic Banks

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Abstract- Islamic banks have been operated in many parts of the world with a new developmental ideas. Islamic banks provide a lot of services to their customers. All of these banks offer different kinds of facilities for the deposit and investment. Mainly, Islamic banks offer three kinds of deposit accounts: current, savings and investment. These accounts will be opened in accordance with the principles of Shariah. The common principles used by the Islamic banks are Mudarabah, Qard Hasan and Wadiah. Islamic banks provide guarantee to return the full amount of deposits placed by customers in accounts even though the facilities operate on the principles of Qard Hasan or Wadiah, but no guarantee is given for deposits which operate under the principle of Mudarabah. This is a brief study on the deposit and financing facilities of Islamic banks in a general aspect.

I. INTRODUCTION

Islamic banking is based on the Islamic principles of business and entrepreneurship. Also, it can be called as interest free banks. The socio economic development of the society is the basic objective of Islamic bank. It ensures that the funds and resources have been utilized to achieve this basic goal. It has already brought the attention of the people around the world through its developmental concepts. It has been providing different kinds of deposit and financing services.

The practices of certain forms of banking activities go back as early as 1200 years ago in Baghdad, Damascus, Fez and Cordova. Deposits in current accounts and use of checks were well known in these Muslim cities in the medieval period. Also, inter-city money transfers were a common practice between cash depositors and practitioner “bankers” who also used to be money exchangers, both at the same time.

The first modern experiment with Islamic banking was undertaken in Mayth Ghamr, an Egyptian town in 1963. It was led by Ahmad Al-Naggar, in the form of a savings bank based on profit-sharing. This experiment continued its journey alone for four years by which time there emerged nine more banks in the country. Islamic banks both small and big number over 300 today; they are spread over 51 countries, and there are some 250 mutual funds that comply with the Islamic principles.

Islamic banking avoids all types of interest in transactions and business. It spreads the message of justice and equity. In fact, Islam is based on the principle enshrined in the following verse:

O ye who believe! stand out firmly for justice, as witnesses to Allah, even as against yourselves, or your parents, or your kin, and whether it be (against) rich or poor: for Allah can best protect both. Follow not the lusts (of your hearts), lest ye swerve, and if ye distort (justice) or decline to do justice, verily Allah is well-acquainted with all that ye do. ¹

II. CURRENT ACCOUNT

Current or demand deposit accounts are almost the same as in all conventional banks. It facilitates the customer accepting deposits to his account and withdraw from it as when he require whole of it or a portion. One can use check to pay another person or entity a fixed amount through current account. Similarly he can receive payments made by others in to his account. Business men and institutions use current account to make payments of the goods and services as the private individuals use it to pay bills and receive salaries etc. Safety, ready availability and the transaction are the purpose of deposits in current account. In some Islamic banks current accounts are opened on the basis of the principle ‘Qard Hasan’.

¹ Al-Quran, 4:135

III. SAVING ACCOUNT

The customers make deposit in saving account for the safety holding of money and easy availability when needed. The functions of savings accounts are different. In some banks, the depositors permit the banks to utilize their money but on a guarantee of getting the full amount back from the bank. Banks adopt several methods of inducing their clients to deposit with them, but no profit is promised. *Wadia* is used as the common principle for the saving account. In many Islamic banks, savings accounts are treated as one of the facilities within the category of investment accounts.

IV. INVESTMENT ACCOUNT

Islamic banks facilitate the customers to open investment accounts. Investment accounts deposits are accepted for a fixed or unlimited period of time, so it is divided into three types;

- Deposit based on time. E.g. for five months, ten months, one year etc. This type of accounts are available in all Islamic banks.
- Deposit based on notice, i.e. notice must be given by customers prior to any withdrawal. E.g. seven days, two weeks or three months, etc.
- Deposits for definite projects and purposes.

In some countries the investment accounts are divided in to two; participating deposit account and committed participating deposits. The deposits on the investment accounts are used by Islamic bank in various projects. Islamic banks apply the principle of *Mudaraba* to run this financial intermediation. Islamic bank act as managing partner while the depositor act as financing partner. The investment return is shared in equal manner. The above mentioned accounts are widely practiced in Islamic banks in different terms. The terminologies are developed in order to the circumstances of Islamic banks in different countries.

An example is taken from different selected countries. It shows the availabilities of financing facilities in the Islamic banks of these selected countries. The following Table I. shows the deposit facilities in Islamic banks in different countries;

Table I. Deposit facilities in Islamic Banks of selected countries.

BAHRAIN	BANGLADESH	IRAN	JORDAN	KUWAIT	MALAYSIA
Current Account	Current Account	Qard Hasan Current Account	Trust Account	Current Account	Current Account
Inv. Account	Trust Account	Qard Hasan Saving Account	Current Account	Inv. Account	Saving Account
Saving Account	Saving Account	Time Or Investment Deposit	Demand Account	Saving Account	Investment Account
Fixed Term	Term Deposit	Inter Bank Deposit	Joint Investment Account	Limited Period	Other Deposits
	Short Notice		Saving Account	Unlimited Period	Inter Bank Deposits
	Inter Bank Deposit		Notice Account		
			Fixed Account		
			Specific Investment Account		
			Inter Bank Deposits		

2

² Subba Laxmi, V, (Eds.) *Islamic Banking an Introduction*, ICAFI University Press, Hyderabad. p.161,162

V. FINANCING FACILITIES

Islamic banks are involved in satisfying the needs of their customers, as in short time, medium and long term funding facilities. Since the interest is prohibited all operations of Islamic banks are based on profit-loss sharing or on fixed charges. The principles of *Mudarabah* and *Musharakah* based on profit-loss sharing are widely used in the loan financing. The principles of *Murabahah* and *Bai muajjal* are used by banks to finance the purchase of fixed assets by customers. It is also used by Islamic banks for customers who want machinery, equipments, raw materials, etc.

The *Shariah* principles which are practiced in Islamic banks of different countries are shown below. It may be noted that the Heads/titles given under every country mean that it's Islamic banks practice only those principles of Islamic banking. For example *Musharakah*, *Murabahah* and *Qard Hasan* are mentioned under Bahrain. It means that the Islamic banks in Bahrain do business mainly through these instruments. Such is the case with other countries as well. ³

1. BAHRAIN

A: *Musharaka*

B: *Morabaha*,

C: *Qard Hasan*

2. BANGLADESH

A: *Mudaraba, Musharaka*

B: *Bai-Mua'jjal, Bai-Salam, Hire-Purchase, Ijara, Murabaha*,

C: *Qard-Hasan*

D: *Wadiah*

3. IRAN

A: Civil partnership, Legal partnership, Direct investment, *Mudaraba, Muzara'a, MUSAQAT*

B: Hire purchase,

C: *Qard Hasan*

4. JORDAN

A: *Mudarabah*

B: *Murabaha*

C: *Qard Hasan*

D: *Wadiah*

5. KUWAIT

A: *Mudarabah, Musharakah*

B: *Murabaha, Bai bi al thaman Ajil, Ijara, Hire purchase, Wakala, Kafalah*,

C: *Qard Hasan*

6. MALAYSIA

A: *Mudarabah, Musharakah*

B: *Murabaha, Bai bi al thaman Ajil, Ijara, Hire purchase, Wakala, Kafalah, Hawalah*

C: *Qard Hasan*

D: *Rahn, Wadiah*

³ Ibid, p.p159,160

7. PAKISTAN

A: *Musharakah, Mudarabah*

B: *Ijarah, Hire purchase*

C: *Qard Hasan*

8. SUDAN

A: *Mudarabah, Musharakah*

B: *Murabaha, Ijarah*

C: *Qard Hasan*

9. TUNISIA

A: *Mudarabah, Musharakah*

B: *Murabaha*

10. TURKEY

A: *Mudarabah, Musharakah*

B: *Murabaha, Ijarah, Hire purchase*

11. UAE

A: *Mudarabah, Musharakah*

B: *Murabahah*

C: *Qard Hasan*

Islamic banks in different countries use the investment fund in various area of financing. They successfully invest in a variety of profitable projects in different sectors like infrastructure, transport and communication, human resources and health sector, agriculture, agro-industries and industrial sector. Infrastructure projects include power generation, power transmission and power supplying. It also covers water supplying projects which aim at production of safe drinking water to rural and urban people.

The projects of transport and communication sector include the construction of roads, flyovers, air port, port development and air traffic control etc.

The projects of human resource development include establishing educational institutes and training centers. It also cover implementation of many schemes for the development of socio-cultural and financial developments. These projects also cover providing health services for the people.

Agricultural and agro-industrial projects cover rural integrated programs, irrigation and dairy processing projects. The plantation of coffee and tea etc. are profitable according to the favorable climatic and land conditions. Industrial projects include the projects like the expansion and modernization of wheel production, cement, basic industries, and manufacturing etc.

The financing area of Islamic banks in different countries is shown below;⁴

The Islamic bank in Bahrain mainly invests in the projects like trading, manufacturing, real estate, agriculture and financial institutions. The Islamic bank in Bangladesh invests in commercial, industrial, agricultural projects, real estate and transport etc. In Iran the Islamic bank invests in commercial projects, industries and mining, construction, housing and agriculture. In Jordan, the Islamic bank invests in general trade, transport and storage, construction, agriculture and industries. In Malaysia, the Islamic bank invests in wholesale and retail trade, transport, construction, agriculture, industries, manufacturing and real estate. The Islamic banks in Turkey invest in metals, petro chemicals, textiles, construction, machinery, paper pulp, agriculture, and food processing.

⁴ Ibid, p.p164,165

VI. Other Facilities

Islamic bank includes letters of credit, letters of guarantee, collection of bills, sale and purchase of foreign currencies and remittance services. In most cases facilities such as letters of guarantee, sale and purchase of foreign currencies and remittance services are provided to the client on a commission basis. In the case of importing a commodity from foreign country the bank requires the client to deposit a certain percentage of money prior to the import of goods. The bank will then issue LC (Letter of Credit) and make payment using both client's and its own funds. The client is responsible to sell the goods and return to the bank its fund as well as its share of profit.

A. Sharia Advisory Council

The principles of financing of Islamic bank are based on Islamic *Shariah*. All of its transactions come under the framework of an interest free financial system. So the Islamic banks are required to establish *Shariah* advisory council to counsel them and to ensure that the operations and activities of the bank follow with *Shariah* principles. The members of *Shariah* advisory council are Islamic scholars having good knowledge in the principles and traditions of Islam particularly in Islamic law and jurisprudence. They give the decision of *Shariah* or interpret the principles of *Shariah* whenever the issue of a new transaction arises. They give the advice on how to deal with the financial system of Islamic Banks which is completely interest free unlike the other financial institutions which are based on interest.

They ensure that the calculation of the *Zakat* of the bank is correct and properly paid. This is an important task that they perform. Here the Islamic Bank and its *Shariah* advisory council both have an opportunity to help the needy and the poor with the *zakah* fund. They can advise the bank's client how and where to use their *zakah*? They can impress upon them to solve the problem of poverty so prevalent in many Muslim societies. In fact, many Islamic banks have already performed such activities in a sense the prohibition of usury has been introduced in Islam to eradicate exploitation and poverty from the human society. Understandably, then, eradication of poverty should become the prime duty of every Islamic bank.

B. Fund Mobilization

Resources are mobilized from share holders and savings accounts holders. Shareholders own the bank's net equities while saving owners take part in the ownership of the bank's investments; i.e. savings are mobilized on the basis of sharing rather than interest based lending. In Islamic banks the stands of depositors are in a special category of share holders. They do not share the private equity of the bank such as its infrastructure and equipments but they participate as holders of funds which are utilized by the bank operators in the profit and loss sharing investments.

C. Fund Utilization

Islamic banks use available funds in the appropriate business in accordance with the principles of financing. Generally the funds are utilized in three ways or modes: sharing modes, sale mode and leasing modes.

VII. SHARING MODES

The Islamic banks provide money for projects on the hope of a share in the return. If a project brings in losses all fund providers and finance contributors lose together and proportionately. There are two forms of applications of this rule;

-) Full partnership
-) Non-voting partnership

In full partnership the bank would be represented directly in making plans and policies and decisions, while in non-voting partnership Islamic banks do not participate in managerial activities and decision making. Both of these sharing modes may be prepared so as to share net income or gross output. They may also be stable, declining or timed, that is, ending at a future date.

VIII. SELLING MODE

In sale modes of financing the bank would be asked to buy commodities and give them to users against future refund, sale modes may take several forms as used in the instruments of financing like *Bai salam*, *Istisna*, *Bai muajjal*, *Bai inyah* and etc. The simplest of them is derived from normal sale agreement where the bank sells real commodities, equipment and machines to their users at an agreed upon marked-up price.

X. LEASING MODES

leasing provides the Lessee the right to access the equipment on payment of the first installment. *Ijarah* agreements help corporate planning and budgeting by allowing the compromise of flexible terms. As practiced in traditional banks and leasing companies, leasing modes can have many varieties with fixed or changeable rents, declining or fixed ownership, operational or financial, along with different conditions regarding the status of leased item at the finishing point of the lease period.

IX. CONCLUSION

Islamic banks have been started so many financing and deposit facilities. These facilities are written in a general manner. These are explained as different accounts and deposit schemes. The forms of fund mobilization and utilization are also described in this study. The various financial instruments or *riba* free tools can be applied in the financing and deposit facilities of Islamic banks. They are not explained here in details. These tools are based on *sharia* rules. And the *sharia* board play a major role to make all transactions under the permitted area of *sharia*.

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