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THE MYTH OF ‘ISLAMIC’ BANKING
‘ISLAMIC’ BANKING IS FRAUD AND DECEPTION

by R Jagannathan Nov 23, 2012
Extracts from an article by a non-Muslim

Reserve Bank Governor D Subbarao has done well to reject the idea of Islamic banking in India. Though he has left a window open in case the government makes legislative changes to enable Islamic banking, he also seemed to suggest that Islam’s injunctions can be met not through banking, but other financial options.
Even in Muslim countries, what is called Islamic banking is – to put it in the dismissive words of one western critic – “normal banking sprinkled with holy water.” At best, Islamic banking is a way to deny the existence of interest and make it easier for Muslims to accept the idea of banking since the Koran includes strong injunctions against the giving or taking of “riba” – interest.
Why did the Prophet of Islam forbid interest-based banking? I am no expert on Islam or the Koran, but taking a commonsense view of his intentions, it is likely that he did not want usury – he didn’t want rich moneylenders to fleece the poor…
In its intended form, Islamic banking as advocated by the Prophet would be close to venture capital or even a mutual fund – where the investor earns nothing if his money makes a business loss. He gets a share of profit or dividends if the venture or underlying investment makes a profit…
In the real world, Islamic banks have to compete with normal banks. They thus create instruments which mirror the returns that are close to current market interest rates in order to retain business. They are thus pulling wool over the eyes of true believers where interest will be disguised as dividend, and borrowing as purchase of assets by the bank. A loan returned would be classified as the repurchase of the same asset by the same person or company.
In a paper by Dr Nimrod Raphaeli produced for the Middle East Media Research Institute (Memri), he quotes a Kuwaiti banker as saying that conventional banks are more straightforward than Islamic banks. In an article titled “The non-usury deception”, the Kuwaiti banker, Ahmad Al-Sarraf, quotes a cleric, Prof Hamid Al-’Ali, as saying that “Islamic banks disguise usury by inventing documents that appear on the surface as sales documents, but that are actually interest-bearing loans. Therefore, anyone who distinguishes between traditional and Islamic banks is ignorant.”
Raphaeli’s paper quotes Al-Sarraf as saying that “most of the Islamic banks are guided by well-paid clerics who are employed by the bank, and issue rulings according to the bank’s needs. The entire corpus of paperwork created by these Islamic banks, Al-Sarraf concludes, is in violation of the rules of the sharia and is inherently deceptive.”
In India, the Bombay Stock Exchange has a Shariah Index where the leading stock is Reliance with a weight of 18 percent. Reliance, which is one of the biggest cash-generating machines in India, invests a huge amount of its funds in interest-bearing deposits and securities – and it is

supposed to be Shariah-complaint. Tata Consultancy, which also has surplus cash and invests in bank deposits, is another top member of the Shariah index.

Clearly, Islamic investment and banking are little more than fig-leaves to give Muslims an excuse to adopt relabelled normal banking. Wonder if the Prophet would have liked such deceptive practices. Islamic banking is a bad idea intended to fool Muslims. Only a government trying to woo a sectarian vote would even think of legislating such a law. The RBI (Reserve Bank of India) Governor should tell the government this is no uncertain terms.