PERSONAL FINANCING WITHOUT INTEREST: A COMPARISON BETWEEN *BAY AL INAH* AND *QARDHUL HASAN*

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Islamic contracts are different from the conventional loan contracts. The primary differences are that Islamic contracts avoid interest *(riba)*, uncertainties *(gharar)*, gambling *(maysir)*, and other non-shariah compliant activities. These are the practices being used in Islamic Financial Institutions (IFI), not only in Malaysia but also in other parts of the world. The prohibition of *riba* has been clearly mentioned in the Quran, for example;

"O believers! Do not consume interest, multiplying it many times over. And be mindful of Allah, so you may prosper."

*(**"Hai orang-orang yang beriman, janganlah kamu memakan riba dengan berlipat ganda dan bertakwalah kamu kepada Allah supaya kamu mendapat keberuntungan."**)*

"...Allah has legalized buying and selling (business) and prohibited usury."

*(**"...Allah telah menghalalkan jual beli dan mengharamkan riba."**)*

In Islamic contracts, each of the components involved, from input to output, must adhere to *shariah* principles. This means that if a gambling company wants to deposit its gambling money into the IFI, then that money will not be accepted. Likewise, if a borrower wants to borrow money for non-shariah compliant activities, then that loan will not be approved by the IFI. Not only does the input (deposit) and output (lending) need to comply with shariah, the processes within the IFI itself must also comply with shariah. The most prominent distinction between Islamic loan contracts and conventional loan contract is that in the former, there will not be any element of interest at all whereas in the latter, interest will become the central figure.

There are two methods in Islamic personal financing, namely *bay al inah* and *qardhul hasan.* Although each of these two Islamic contracts has its own unique traits that differs it from the other contracts, both do not have interest or *riba* in its components.

In *bay al inah,* the IFI will execute the Islamic contract by buying and selling asset in the form of securities owned by the bank. For example, Hakim applies for Islamic financing for RM50,000 and his loan is approved. The IFI will ask Hakim to come to the bank for the aqad and signing of loan documentation. In order to avoid *riba*, the IFI will sell the bank's securities which is equivalent to the loan amount to the borrower (Hakim) on a deferred basis of 10 years for RM70,000. Hakim will agree to the proposal and will subsequently resell the securities back to the IFI for RM50,000 on spot basis. After this process is done, Hakim will get RM50,000 cash for his personal loan from the Islamic banking and he needs to repay RM70,000 to the Islamic bank over a tenure of 10 years. The extra difference of RM20,000 (RM70,000 – RM50,000) is considered as profit to the IFI. In essence, this Islamic loan contract is being done by utilising the sale and buy securities owned by the bank to the borrower. This whole process does not involve interest or *riba.*

As for the *qardhul hasan*, it is a benevolence way of lending and borrowing money without interest. The borrower will repay exactly as per the amount borrowed from the lender. There are no elements of interest and profit from this transaction at all. For example, Zamri wants to borrow RM1,000 from Azmi for 3 months. Azmi agrees to lend RM1,000 to Zamri which is payable in the next three months. So, after 3 months, Zamri will need to repay RM1,000 to Azmi without any extra payment. If Azmi requests Zamri to pay RM1,100, the extra RM100 will be considered as *riba* which is *haram* and not allowable in *shariah.* This *qardhul hasan* can and should be expanded in the society for Surplus Fund Unit (SFU) entities that have excess financial resources to give lending to Deficient Fund unit (DFU) individuals in order to help them financially.

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References:

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