

<b>Unit Title: Islamic Finance</b>	<b>Unit Code: IF</b>
<b>Level: 6</b>	<b>Learning Hours: 210</b>
<b>Learning Outcomes and Indicative Content:</b>	
<b>Candidates will be able to</b>	
<b>1. Examine the distinguishing features of Islamic finance</b>	
1.1 Explain the meaning of Shari'ah and its role in Islamic finance; analyse the sources of Shari'ah; describe the major prohibitions in Shari'ah-compliant commercial transactions;	
1.2 Describe and explain the prohibition of Riba and Gharar;	
1.3 Describe and evaluate the implications of prohibition of Riba and Gharar on individuals, financial institutions and societies;	
1.4 Evaluate the role of risk based and equity finance.	
<b>2. Develop a sound understanding of Islamic economics</b>	
2.1 Explain the concept of time value of money and the impact of inflation on financial liabilities in Islamic economics;	
2.2 Explain wealth as a means to the good life rather than an end in itself – growth and development free of exploitation of one another;	
2.3 Explain the objectives of Islamic economics which include the fulfilment of basic human needs with dignity, provision of basic food, education and health necessities with equal opportunities to all for work and employment;	
2.4 Describe the functioning of market forces and the role of the State for optimum growth with social justice – just distribution of produce among the factors of production and necessary transfer payments by the State and among individuals.	
<b>3. Describe and explain the business ethics cherished in Shari'ah based economics</b>	
3.1 Identify the business ethics and moral values in the creation and distribution of wealth;	
3.2 Analyse the motivation for following the Shari'ah in business dealings.	
<b>4. Understand and explain the concepts and operations of Islamic banking</b>	
4.1 Explain the concept of intermediation between the resource surplus and the resource deficit units and its basis in the conventional and Islamic framework;	
4.2 Explain the main elements of the contracts and features of Islamic commercial law relating to banking;	

- 4.3 Describe the key operations of Islamic banking: deposit mobilisation and use of funds for financing and investment;
- 4.4 Describe the essentials of partnership based modes – Musharakah, Mudarabah;
- 4.5 Explain the features of trade based modes – credit sales like Murabaha and Musawamah, and forward sales including Salam and Istisna'a;
- 4.6 Describe and explain the lease (Ijarah) based modes and the hybrid of partnership and lease (diminishing Musharakah);
- 4.7 Explain the main features of Islamic instruments of investment.

**5. Explain the key differences between conventional banking and Islamic banking**

- 5.1 Explain that complying with the Shari'ah is the basic requirement of Islamic banking;
- 5.2 Explain the difference in the subject matter of conventional and Islamic banking and the nature and level of risk taken in the two systems;
- 5.3 Explain the difference in the procedure and processes of the two kinds of banking in calculating return despite the fact that normally the same benchmark is used by conventional and Islamic banks;
- 5.4 Explain the additional risks faced by Islamic banks like that of non-compliance with Shari'ah rules, assets risks, loss of cost of funds in default cases, enforceability of debt;
- 5.5 Describe the difference in regulatory and supervisory requirements of the two systems;
- 5.6 Explain the difference between the two systems in terms of the impact of excessive use of credit on the economy and society.

**6. Understand and explain Takaful as an alternative to insurance**

- 6.1 Explain the meaning of Takaful; describe and explain the need for taking insurance cover and why its Shari'ah alternative is required;
- 6.2 Explain the basic concepts and principles of Takaful; the basis of co-operation among policy holders (participants);
- 6.3 Explain various models of Takaful and how they fit in the theory and principles of Islamic finance;
- 6.4 Describe and explain how the Takaful system works – an overview of operational procedures;
- 6.5 Explain the main differences between Takaful and conventional insurance in terms of rights and responsibilities of the parties involved and the modes of business;
- 6.6 Explain Retakaful for underwriting the risks of Takaful business;
- 6.7 Explain the potential of Takaful as an alternative to conventional insurance.

**Assessment Criteria:**

- Assessment method: written examination
- Length of examination: three hours
- Candidates to attempt four questions from a choice of eight, all questions carry equal marks

**Recommended Reading:**

Institute of Islamic Banking and Insurance, London; (i) *Encyclopedia of Islamic Banking and Insurance*; 2003; (ii) *Anthology of Islamic Banking*; 2000

Aly Khorshid; *Islamic Insurance; A Modern Approach to Islamic Banking*; RoutledgeCurzon, Taylor & Francis Group, London, 2004

Siddiqi, M. Nejatullah; *Insurance in an Islamic Economy*; The Islamic Foundation, U.K., 1985

Rosly, Saiful Azhar; *Critical Issues on Islamic Banking & Financial Markets*; Author House, Bloomington, Indiana, USA, 2005  
ISBN: 1-4184-6930-0 (sc)

Khan, Zafar Ahmed; *Islamic Banking and its Operations*; Institute of Islamic Banking and Insurance, London

Shafi, Muhammad Mufti and Maulana Taqi Usmani; *The Issue of Interest including Commercial Interest*; Darul Ishaat, Urdu Bazar, Karachi

Usmani, Muhammad Taqi; *Introduction to Islamic Finance*; Idaratul Ma'arif, Karachi, May, 2000

Ayub, Muhammad; *Understanding Islamic Finance*; Wiley Finance Series, John Wiley & Sons, London; September, 2007

Iqbal, Zamir and Mirakhor, Abbas; *An Introduction to Islamic Finance: Theory and Practice*; John Wiley & Sons (Asia) Pte Ltd, Singapore, 2007

