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YOUR GUIDE TO Halāl Money

The feet of the son of Adam will not move on the Day of Judgement until he is asked regarding five matters; how he spent his life, how he utilised his youth, how he earned his wealth and how he spent it, and what he did with his knowledge." (Tirmidhī)

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AL QALAM

The Shari'ah accuracy of this guide has been
verified by the Al-Qalam Shari'ah Scholar Panel.



Halāl Money

Muslims believe the sole purpose of their existence is to seek the pleasure of their Creator. This perspective on life requires constant striving in always trying to conduct ourselves in a manner which will please our Creator the most.

Muslims rely on the Qur’ān and the Sunnah, from which the Shari’ah is derived, to determine what is most pleasing to their Lord. The Shari’ah has been understood by some to consist of five distinct areas.

These are:



This fifth aspect of Shari’ah can be understood through a famous hadīth in Sahīh Muslim, where Allah’s Messenger ﷺ made a mention of a person who travels widely, his hair dishevelled and covered with dust. He lifts his hand towards the sky (and thus makes the supplication): “O Lord, O Lord,” whereas his diet is unlawful, his drink is unlawful, and his clothes are unlawful and his nourishment is unlawful. How can then his supplication be accepted?

In Shari’ah therefore, the concept of halāl applies not just to our food but also to our money.

3 principles to make our money halāl

- 1 The product/service must be permissible (e.g. not alcohol or pork etc.)
- 2 No interest-based (ribā) finance involved. (e.g. buying a house using a mortgage)
- 3 The contract wording must be suitable. (See below for examples)

- 3a Must not contain penalty clauses
- 3b Seller must have possession of the goods they are selling
- 3c No excessive uncertainty (gharar) e.g. In insurance, when the buyer is uncertain if they would receive a service if this depends on an uncertain future event happening
- 3d No interlinking of mutually inconsistent contracts e.g. a contract permitting the hire of a particular asset (e.g. a car) would need to be separate from the contract permitting the eventual sale of the car to the person hiring it

This guide provides an Islamic perspective on the ten most common money issues facing British Muslims. An up-to-date list of Shari’ah-compliant solution providers - provided for information purposes only - can be found at www.1stethical.com. A more detailed explanation of the Islamic principles used in compiling this guide can be found at www.alqalam.org.uk



UNIT TRUSTS: Unit Trusts allow funds to hold assets and pass profits through to the individual owners, rather than reinvesting them back into the fund. The investment fund is set up under a trust deed. The investor is effectively the beneficiary under the trust.

CHILD TRUST FUND (CTF): a long-term tax-free savings account for children born between 1 September 2002 and 2 January 2011.

What's wrong with conventional investments?

Islam does not permit most conventional investments given they tend to invest in prohibited activities (such as alcohol or gambling) or invest in companies whose total debt is more than one-third of their market value. It is therefore difficult to find Shari'ah-compliant investments and pension investments.

How do Shari'ah-compliant investments work?

Scholars maintain that any investments which have less than 5% of turnover derived from impermissible sources, and have total interest-based debt of less than 33% of market value can be deemed acceptable, as long as any income from impure sources is given away in charity without any expectation of reward. Some scholars would have a zero tolerance approach to the 5% and 33% ratios.

This seems quite complicated to work out?

The Dow Jones Islamic Market Index (DJIM) applies the above criteria to all the major stock market companies so investors can more easily determine which shares conform to Shari'ah standards. With Unit Trusts, Child Trust Funds and ISAs, the ideal way to determine whether they are Shari'ah-compliant is to look at the underlying shares into which they are invested. In practice, this may be difficult as the trusts normally pool tens, if not

hundreds, of shares. It may therefore be easier to invest through a pre-screened Shari'ah-compliant index such as the Dow Jones Islamic Index. Alternatively, one may choose to invest directly using a self-select investment.

Credit Cards

Can I use a credit card?

All scholars would prohibit the use of credit cards where the balance is not cleared in full each month, and interest is charged as a result. In general, scholars also forbid the use of credit cards even when the balance is paid in full at the end of the month, because signing the contract involves agreeing to pay interest. This violates the Shari'ah principle of "making sure the contract wording is permissible". Similarly, scholars would prohibit the use of credit cards where they allow a person to spend more than they can afford. Moreover, the increasing popularity of debit cards has lessened the need for many people to have credit cards any more.

Yet some scholars will tolerate the use of credit cards, assuming the balance is always paid in full each month, but only for those who would otherwise face significant inconvenience. For example some travellers would find it problematic to carry large amounts of cash, and some key services cannot easily be purchased without a credit card.



Car Leases and Insurance



LEASE: A lease permits the user (lessee) to rent something from its owner (lessor) for an agreed period of time for a fixed rental charge.

Are normal leases harām?

In principle, a basic lease is fine. However, conventional lease contracts have some defects, detailed below, which render the contract defective (fāsīd), though not invalid (bātil) under Shari’ah. Consequently these defects should be remedied prior to the leases being taken, or a sin will be committed in taking the lease, even though the contract itself will still be valid. Like credit card contracts, some scholars would tolerate the use of conventional lease contracts only if there is a valid need.

Conventional Leases



Amendments that need to be made for lease to be Shari’ah-compliant:



User responsible for replacing the item if lost, stolen or destroyed

Scholars recommend the contract wording be changed to make the owner responsible

Interest-based penalties if the user defaults on payments

Self-imposed fixed penalties to go to charity if user does not pay installment on time

What’s wrong with insurance?

Most scholars consider insurance to be impermissible mostly due to the uncertainty (gharar) and interest involved, given there is an unknown benefit being received in exchange for a defined insurance premium. For example, if you buy car insurance, and your car is stolen or damaged, you would receive a new replacement car or money to repair your car. However given you do not know if your car will be stolen or damaged, you do not know at the time of taking the insurance out if or how much you may end up claiming itself will still be valid.

Scholars have tolerated the use of conventional insurance when it is a legal requirement, e.g. in order to legally drive a car.

Insurance and Takāful

Many scholars have cited takāful as an alternative to conventional insurance.



Takāful: when members contribute money into a pooling system in order to guarantee each other against loss or damage.

Takāful operates on the Shari’ah premise that unlike a contractual payment, money given as a gratuitous donation can have uncertainty (gharar) arising as a consequence of making the gift. Consequently all those paying into a takāful pool, would be eligible to receive a variable compensatory payment if they needed to make an ‘insurance claim’. Further, the Shari’ah permits the pool to restrict benefits only to those who paid in to the takāful pool.



Warranties, Breakdown Cover & Bank Accounts



GUARANTEE: A binding assurance normally provided by the seller or manufacturer of a new product you've bought, that the item they sell will meet specified standards over a period of time. If the product fails to meet these standards, the seller will repair or replace the product for you at their own cost.

WARRANTY: Allow guarantee periods to be extended for an additional charge.

Are guarantees and warranties permitted?

Guarantees offered as **part of the purchase price** are allowed according to the Shari'ah, for example receiving a 36-month guarantee when you buy a car. Warranties, on the other hand, require a separate payment to be made. An example of this is to increase a 12-month guarantee for a new fridge to a 60-month warranty. This is a form of insurance and hence not permitted by the majority of scholars, though a minority of scholars do consider insurance to be permitted.

What about breakdown cover for cars?

Car breakdown cover provided by companies such as RAC or the AA, involves paying a set amount of money per year (called an annual premium) in return for a recovery service if your car breaks down. This contract can contain aspects of ribā (interest) and gharar (uncertainty) which are both prohibited. However, the Al-Qalam Shari'ah Scholar Panel have ruled that due to the principle of istihsān (juristic preference founded on societal need), certain levels of basic cover are allowed. These relate to recovery from a remote location only and do not include home recovery elements alone or other financial compensation packages.

Islamic Bank Accounts Why are conventional bank accounts not allowed?

Because they pay interest (ribā) on the money you deposit in them. Even current accounts which do not pay any interest are not ideal because banks use the money deposited in them to loan to others on an interest-bearing basis. Despite this, most scholars permit the use of current accounts due to necessity.

How are Islamic bank accounts different?

Some banks offer accounts which do not promise any return, as well as undertaking to not use your money to lend out to others on an interest-bearing basis, or fund investment in impermissible activities. Other banks offer accounts which do give a return which is generated from investments in permitted trades. Many scholars consider the underlying mechanism which generates the return to be problematic and the legal obligation for banks to guarantee the return of monies deposited with them would also be an issue. Notwithstanding these concerns, many scholars would still prefer Islamic accounts over conventional accounts.

Note

For Muslims who are unable to open Islamic bank accounts, such as those who run businesses or those with trust-based activities, some scholars have permitted receiving interest on deposits, on condition all interest earned is given away to the poor, without intention of reward. Other scholars maintain no interest should be taken even when an Islamic bank account is not an option.



Personal and Student Loans

What's wrong with a conventional personal loan?

Loans require the lender to repay the money loaned plus interest. Giving or receiving interest money is a major sin.

What makes an Islamic loan different?

A Qardh Hasan (“a goodly loan”) is a charitable gesture of support by the lender to the borrower. The lender is entitled to all of their money back but not a penny more – no interest. This supports, rather than exploits, people in need of money. A Qardh Hasan is a highly praiseworthy act in Islam.

For those wishing to borrow money to fund non-essential consumption such as a new car, holiday etc. the Islamic perspective is to advise against borrowing and to live within one’s means.

For those wishing to borrow money to set up a business, one may request the person from whom the money is sourced to own a share in the business venture, and thereby share in the profits and losses generated.

Student Loans

Why are student loans not allowed?

To repay any more than the original amount borrowed is interest which is a major sin. A small minority of scholars have excluded additional repayments to cater for inflation. However, the government is introducing a new student loan scheme for September 2012, which, unlike the previous scheme, will require students to pay back a rate of return in excess of inflation.

Is there a solution?

It is important Muslims study at university so that they can participate fully in society. 1st Ethical are currently lobbying the government to allow the Student Loans Company to provide Shari’ah-compliant loans. For more information please visit: www.1stethical.com. Students wishing to avoid interest should consider:

- University Scholarships and sponsorships.
- Companies who fund students through university as part of a professional contract.
- Working on a part-time basis whilst studying.
- Taking a gap-year and working full time to save money for University.
- Asking close friends and family for non-interest-based loans (Qardh Hasan).
- Lobby for alternative ribā-free funding for higher education.



Mortgage Alternatives (Islamic Home Purchase Plans)

Why are mortgages not allowed?

Because as a borrower, you have to pay back the amount you borrowed plus interest payments which is a major sin.

What makes Islamic Home Purchase different?

Islamic Home Purchase Plans allow the bank to buy a share of the property alongside the client.

You then pay rent as a tenant on the bank's share as well as an on-account payment used to buy the bank's shares, which the bank promises to sell you at the initial purchase price. Over time therefore, your share would steadily increase whilst the bank's share reduces (this model is known as *diminishing mushārahah* (or *diminishing partnership*)).

An example

Aisha wants to buy a house for £200,000. She enters into an Islamic Home Purchase Plan agreement with a bank that splits the ownership of the house into 10 equal segments worth £20,000 each. Aisha is able to afford two segments now (£40,000) so the bank buys the remaining eight segments (£160,000).

Every month, Aisha pays two amounts to the bank:

1. Rent, for her use of the eight segments of the house owned by the bank
2. A purchase payment (known as an on-account payment) to increase her share in the house. Every time Aisha's on-account payments to the bank reach £20,000, the bank will transfer ownership of one share to her. Over time her share in the property will continue to increase whilst the bank's will decrease – hence the name *diminishing mushārahah*.





Pensions

Are pensions allowed?

Certain types of pension are permitted whilst others are not. The following box explains the three basic types of pensions, and their Shari'ah permissibility.

1. State Pensions

State pensions are permitted given they are considered a contractual entitlement of all citizens, and are funded by taxation which all qualifying citizens are legally obliged to pay.

2. Money Purchase Pension

This pension scheme is based upon employees paying money to a pension provider, who then invests the funds. When employees retire, the retirement fund is used to buy an annuity - a financial product which provides an income for the rest of that person's life. This type of pension scheme will be considered as halāl only if the underlying investment is Shari'ah-compliant, though certain contractual clauses are defective. Care must also be taken when accessing the pension benefits upon retirement to ensure certain types of annuities are avoided, as they involve ribā.

3. Final Salary Pension

As the name suggests, this type of pension scheme is based upon the pensioner receiving a percentage of their 'final salary' as a pension, in exchange for contributing a portion of their salary throughout their working life.

The Final Salary Pension scheme tends not to have an underlying fund into which members' monthly contributions are invested. Instead, these contributions are used to directly fund the pensions of those who have already retired. In these schemes, the pension that one is entitled to receive is seen as deferred salary - the exact value of which cannot be determined as it depends on future life span. Because of this, the requisite contract clause is deficient from a Shari'ah perspective and undertaking such a contract will be regarded as sinful. However this deficiency does not render the overall contract harām and money received from the pension is considered halāl.

Conclusion

Following the Shari'ah is important because it determines what actions are most pleasing to our Creator, which is after all, the main purpose of a Muslim's life. Following the Shari'ah has additional benefits; stable economic growth is facilitated, wealth is distributed more evenly in society and exploitative and harmful activities and trades are curbed. In this sense the principles of the Shari'ah promote a greater sense of well-being and fairness for all, irrespective of religion. This Guide has attempted to explain the key Shari'ah principles dealing with money matters. Please visit the 1st Ethical website, if you wish to view an up-to-date list of Shari'ah-compliant solution providers.

1st Ethical Charitable Trust is committed to empowering British Muslims to benefit society through faith-based campaigns partnering with leading charities such as the RSPCA, Age UK, Salvation Army and Islamic Relief. For further information, please visit www.1stethical.com.

Al-Qalam Shari'ah Scholar Panel provides British Imams and Muslims with scholarly Islamic expertise on legal and financial matters. For more information, please visit www.alqalam.org.uk.