



Money Creation by Banking Industry, Maqasid Al-Shariah and Ar Rawaj

Penciptaan Wang oleh Industri Perbankan, Maqasid Syariah dan Ar Rawaj

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Money Creation & Maqasid Shariah

30

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ABSTRACT

The paper aims to investigate money creation by banks with respect to the dimensions of *Maqasid al Shariah* in particular the concept of *Ar Rawaj* as one important element of *hifz al mal*. Numerous studies conducted analysing Islamic Banking and Finance (IBF) in relation to the *Maqasid al Shariah* except the issue of money creation *vis-a-vis* *Ar Rawaj* concept. This is vital as IBF is about the religion of Islam and the industry is growing fast. The investigation would have implication to the nature and goals of IBF as well as its directional development. The author employs library research method examining published works including journal articles, quotes from global prominent practitioners, established textbooks and primary translated books from original authors on the subject matter and looks for the gap. Using literatures in the area of money creation, *Maqasid al Shariah* as well as from the reading from IBF, the paper attempts to deductively analyse the threat of money creation to the fulfilment of the *Maqasid al Shariah* with respect to the concept of *Ar Rawaj*. Using the compass of religion, the author concludes that the industry stakeholders needs to seriously examine the money creation issues and explored the alternative models.

Keywords: Money Creation, *Maqasid al Shariah*, *Ar Rawaj*, Islamic Banking and Finance





ABSTRAK

Tulisan ini bertujuan untuk mengkaji penciptaan wang oleh perbankan dalam dimensi *Maqasid al Shariah* secara umumnya dan khususnya berkaitan konsep *Ar Rawaj* (sirkulasi kekayaan) yang juga merupakan elemen penting dalam pemeliharaan kekayaan. Penulis menggunakan kaedah penyelidikan perpustakaan dalam menganalisa artikel-artikel yang telah diterbitkan dalam jurnal-jurnal. Penulis juga merujuk kepada kenyataan pemain-pemain industri dunia. Buku-buku teks ekonomi dan buku-buku terjemahan daripada penulis asal juga dianalisa oleh penulis. Banyak kajian telah dilakukan yang menganalisa Perbankan dan Kewangan Islam dalam konteks *Maqasid al Shariah* namun kurangnya analisa yang menyentuh penciptaan wang dan kaitannya dengan konsep *Ar Rawaj*. Ini adalah penting kerana Perbankan dan Kewangan Islam adalah berkaitan dengan agama Islam dan juga kerana industri ini sedang berkembang maju. Investigasi ini mungkin memberi implikasi terhadap perkembangan dan hala tuju perbankan dan kewangan Islam. Menggunakan literatur dalam bidang penciptaan wang, *Maqasid al Shariah* dan juga dari bacaan dari perbankan dan kewangan Islam, kertas ini cuba menganalisis ancaman penciptaan wang dalam memenuhi *Maqasid al Shariah* terutama berkaitan konsep *Ar Rawaj*. Penulis menyimpulkan bahawa pihak berkepentingan industri perlu mengkaji secara serius masalah penciptaan wang dan meneroka model alternatif.

Kata Kunci: Penciptaan Wang, *Maqasid Al Syariah*, *Ar Rawaj*, Perbankan dan Kewangan Islam

INTRODUCTION

The birth of Islamic Banking and Finance (IBF) has seen tremendous dialogue and study on its viability and ability to competitively compete with its counterparts. The performance of the industry has shown promising trend riding along the innovations at par with the conventional counterparts. The intellectual discourse includes whether or not the present IBF fulfils the requirement of *Maqasid al Shariah*. Islamic economists that propagate IBF to be developed within the framework of *Maqasid al-Shariah* (Fakhri & Khairul Anuar, 2018) include Chapra, Nejatullah Siddiqui and Habib. They argued that IBF must graduate to equity based and profit and loss sharing instruments if the *Maqasid al Shariah* is to be met. In other words, the focus of the discussion is on the contracts applied in the offerings of IBF.

Economic study encompasses the enquiry into money creation by banking industry in relation to the country's money supply (Parkin, 2008; Melvin & Boyes, 2011; Borges, 2016). Money creation is the mechanism used by banking industry to provide credit to the economy (Parkin, 2008; Melvin & Boyes, 2011; Borges, 2016). As IBF industry plays important role in the economy, any discourse pertaining to the industry must incorporate the insight into money creation. As *Maqasid al Shariah* framework is about the wellbeing of the society, the enquiry into IBF with respect to the *Maqasid al Shariah* is not justified without the discussion on money creation.



Thus, this study will look into the money creation with respect to *Maqasid al Shariah* in particular the concept of *Ar Rawaj* as one of the vital elements for achieving the *Maqasid al-Shariah*. This is pertinent as Islamic economics emphasises on equal wealth distribution and against the concentration of wealth. The spirit of the Islamic economy-means of livelihood must be ensured for everyone, concentration of wealth is undesirable (Islahi, 1988, pg 229). It stresses upon the need of fair distribution of wealth by way of inheritance and poor-due (Al-Qardawi, 2010).

RESEARCH METHODOLOGY

Creswell (2009) explained researchers may choose from three types of research methods namely; quantitative, qualitative and mixed designs. In this research, the author employs library research by investigating published articles written on IBF and its relation to *Maqasid al Shariah* and identify the gap i.e. the issue of money creation and its impact on the IBF's compliancy on the *Maqasid al Shariah*. In gaining an insight into *Maqasid al Shariah* particularly on *hifz al mal* and *Ar Rawaj*, the author examined the translated version of classical book on *Maqasid al Shariah*.

MONEY CREATION BY BANKING INDUSTRY

Discourse on bank's money creation is mixed with some quarters supporting it and the others opposing it. Some authors assert to ensure the smooth operation of economy, banks need to create money. For example, Taylor (2009a), cited by O'Connell (2007), sees the Federal Reserve program of quantitative easing as indicating that the projected fiscal deficits will be financed by money creation. Ünalmış (2015) assume that primary budget deficit is financed by domestic and foreign borrowing and money creation. Crick (1927), as quoted by Werner (2014), argued that banking system as a whole can create credit and money. However, in doing so, he assured that the process is under control due to its diffusing nature hence has less direct economic impact.

On the contrary, in addition to the authors mentioned in the above, other writers have also criticised the authority granted to banking industry to create money. Bagus and Howden (2013); Smirna's (2015) and Meera (2016) found a link between financial crisis and bank's money creation. Bagus et al. (2013) and Smirna (2015) link fractional reserve banking system with the crisis and Werner (2014) established that fractional reserve banking system results in bank's money creation. Bagus et al. (2013) asserted that the foundation of the modern banking system – the holding of fractional reserves against deposits – is also problematic from economic, legal and ethical angles. Smirna (2015), citing Mises (1980), in referring to past financial crises, convinced that fractional reserve banking which is inherently unstable tends to be revealed with the occurrence of each crisis. Tlemsani and Suwaidi (2016) warned in debt-based lending, money creation may lead to oversupply of money as there is no direct linkage between additional production and additional money supply. Oberholster (2010), referring to money creation by Central Bank, asserted that the money created is based unfunded monetary credit. On June 2018 Switzerland hold a referendum to end money creation by banking industry and to accord the country's central bank the sole authority to



create money. Even though the referendum was rejected, the money creation issue remains unresolved. This is parallel with Meera (2016)'s advocacy for government's role as the money creator.

Commenting on the fractional reserve banking system, Meera and Larbani (2009) recorded that fractional reserve banking is haram and contradicts with the *Maqasid al Shariah*. Askari, Iqbal, Krichene & Mirakhor (2010) dismisses Islamic Banking creates money in the same way as conventional banks do. They arrive at this conclusion under the pretext that Islamic Banks are operating under 100 per cent reserve banking. Unfortunately, Kureshi & Hayat (2015) reject the above and argue that Islamic Banking System is a fractional reserve banking system copy-cat of conventional banking system hence they assert that Islamic Banks do create money as conventional banks do. Smolo and Hassan (2011)'s study on the potential of *musyarakah mutanaqisah* (diminishing partnership) technique for Islamic financial institutions proposed the technique be implemented in cooperatives instead of bank (including Islamic Banking) due to the existence of money creation in fractional reserve banking. In its essence money creation exists in Islamic Banks as well. Hasan (2014) also discuss money (credit) creation and Islamic Banks in his book titled "Islamic Banking and Finance: An Integrative Approach". However, Hasan (2014)'s discussion on the matter centre on whether or not Islamic Banks should create money. He emphasise that Islamic Banks should create credit. In the process, he states that Islamic Banks was not sure whether or not to follow the step of conventional banks in creating money. Ironically, he also argues that "all deferred payment contracts in Islamic finance involve credit creation."

Banks' money creation has also caught the attention of a British law maker who has raised the matter during a parliamentary debate. In the debate Meacher (2014) argued that the money creation mechanism has been abused by the banking industry. He explained the banking industry decides who uses that wealth and for what purpose and they have used their power of credit creation hugely to favour property and consumption lending over business investment because the returns are higher and more secure. Thus, the banks maximise their own interests but not the national interest.

Statements from various industry players support the above critics. Below are some remarks by well-known figures from the banking industry in verbatim.

"The key function of banks is money creation, not intermediation."

Michael Kumhof, Deputy Division Chief,
International Monetary Fund

"When banks extend loans to their customer, they create money by crediting their customers' accounts."

Sir Mervyn King, the Governor of the Bank of England from 2003-2013



HOW DO BANKS CREATE MONEY?

"Banks lend by simultaneously creating a loan asset and a deposit liability on their balance sheet. That is why it is called credit "creation" — credit is created literally out of thin air (or with the stroke of a keyboard)."
Standard and Poor's (2013)

Bank creates money whenever they give out loan and financing to customers (Standard and Poor's, 2013; Turner; 2013; Werner, 2014; Arfah & Borges, 2015). This is done via loan products (for conventional banks) and financing products (for Islamic banks). After the officer in-charge completed the due diligent process as well as Know Your Customer process on the loan and financing application, the authorised person would approve the application. Having done that, the officer-in-charge of disbursing the loan/financing would create the account under the name of the applicant. The officer then key in the amount (in digital number) of the approved loan/financing and the money is created (Standard and Poor's, 2013; Turner; 2013; Werner, 2014; Arfah & Borges, 2015). No physical money is printed, no reserve money of the bank's is used, no transfer of money from other sources, but just by the stroke of the computer button. If the approved amount is RM50,000 then the officer simply key in RM50,000 in the borrower's account and RM50,000 is created out of nothing (*ex nihilo*) (Meera and Larbani, 2009; Turner, 2013; Werner, 2014) and circulated in the economy. This can be seen in the country's money supply. For example, as at January 2016 only 3 per cent of money supply represented by notes and coins (M0) while 97 per cent is other forms i.e. M1, M2, M3 and M4 (BNM, 2017).

IMPACT OF MONEY CREATION

Bank's money creation resulted in a significant increase of money supply in the economy (Melvin & Boyes; 2011). The amount of credit created by banks are counted as money supply in the economy leading to the debasement of the value of real money circulating in the economy which is owned by the mass. As a result, the value of printed money in circulation is diminishing. Such *modus operandi* grants banking industry the authority to take away the purchasing power from those who hold physical cash to the banking industry (Meera et al., 2009). In short, this scenario is called inflation i.e. too much money chasing few goods (Sudeley, 1999; Rowbotham, 1998). To make the matter worst, the people with hard earned cash money are unaware that their purchasing power is stolen every time banks disburse loan and financing. Their ability to own an asset has been forcefully taken away. This can be construed as legalized institutional theft and it is a form of injustice (Naqvi, 2015; Meera et al., 2009). This will eventually resulted in the people are having difficulty to buy assets and properties as they becomes dearer due to their legally acquired income's value diminishes.

Meera et al. (2009) concluded that fractional reserve banking as a mechanism for creating money has distributive effects –i.e. effects on the ownership structure of assets in the economy, and that this effect violates the ownership principles in Islam while inflicting profound injustice on the economy and society. It shows that fractional reserve



banking creates ownership out of nothing, neither with legitimate work nor taking on commensurable risks; thereby transferring ownership wrongfully. They also showed that fractional reserve banking has elements of *riba* that goes against the *Maqasid al Shariah*; and therefore, can be termed illegal or haram from Islamic perspective. Their analysis has profound implications for the validity of money creation and fractional reserve banking from Islamic perspective, including the operations of IBF under the fractional reserve banking framework.

This taking away people's ability to own assets is akin to usurping other people's property that contradicts with the following verse:

Do not devour one another's property wrongfully, nor bribe with it the judges in order that you may sinfully, and knowingly, deprive others of any part of what is rightfully theirs.

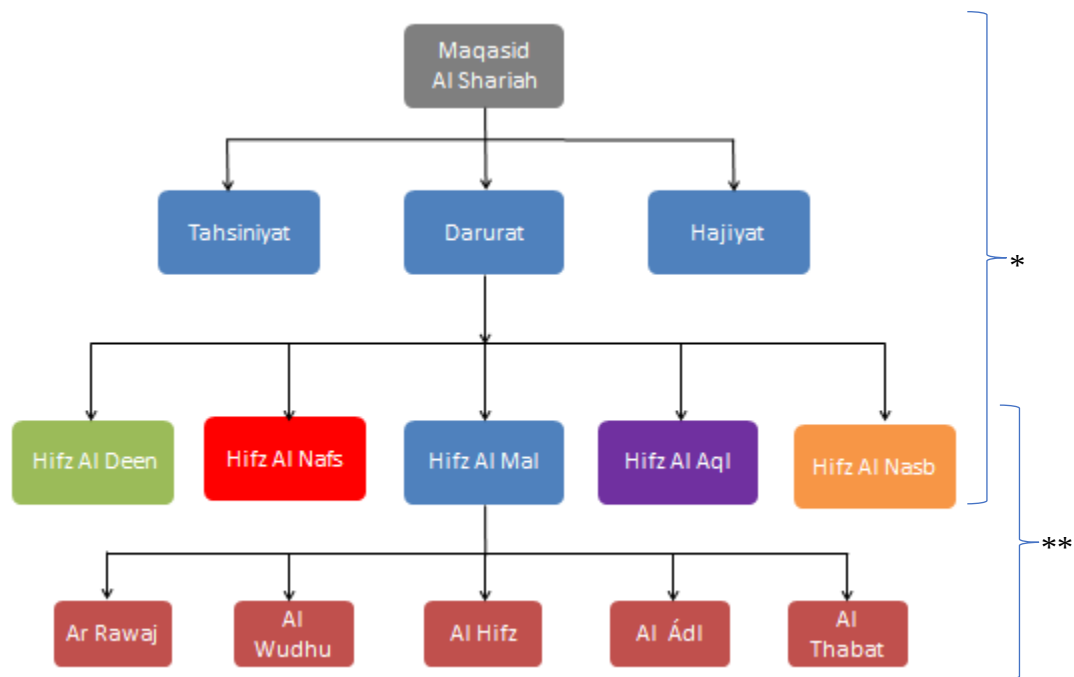
(Al Baqarah, 2:188)

MAQASID AL SHARIAH, HIFZ AL MAL AND AR RAWAJ

This section will briefly discuss *Maqasid al Shariah* and its relation to the preservation of wealth (*hifz al mal*) as well as concept of wealth circulation (*Ar Rawaj*) as summarised in Diagram 1. As the scope of this article is on *Maqasid al Shariah* and *Ar Rawaj*, the author will not deliberate on the traditional classifications of *Maqasid Al Shariah* according to three levels of necessity i.e. necessities (*darurat*), needs (*hajiyyat*) and luxuries (*tahsiniyat*) (Ibn Ashur, 2006; Auda, 2008). Ibn (2006) and Auda (2008) further elaborates that the preservation of faith (*hifz al deen*), preservation of life (*hifz an nafs*), preservation of mind (*hifz al aql*), preservation of offspring (*hifz an nisb*) and preservation of wealth (*hifz al mal*) are important for human life. Diagram 1 shows that under the category of *tahsiniyat* (luxuries), *Maqasid al Shariah* will be accomplished if faith, life, mind, offspring and wealth are preserved.

Maqasid al Shariah which literally means the higher objectives of Shariah and its framework is traditionally used by the scholars to generate certain hukm for certain current issues that requires Shariah ruling (Laldin & Furqani, 2013; Azman Mohd Nor & Mohd Nasir Haron, 2016). It explains the justification for any hukm or ruling (Ibn Auda, 2006; Auda, 2008). Additionally, the framework can also be used as guidance for designing a country's social, economic and political policy including the country's financial system as well as Islamic Finance (Vejzagic & Smolo, 2011; Azman Mohd Nor & Mohd Nasir Haron, 2016).

Diagram 1: *Maqasid al Shariah* Framework



Source: *Ibn Ashur (2006), Auda (2008), **Engku Ali (2013), Laldin & Furqani (2013)

One of the higher objectives of Shariah in preserving the wealth (*hifz al mal*) is wealth circulation (*Ar Rawaj*). Bayyah (2018) refers rawaj as the circulation of wealth in among as many hands as possible by Shariah compliant means. (Ibn Ashur (2006) documented that Islamic scholars established that wealth preservation is one of the fundamental and universal principles of the Shariah. In other words, wealth can only be preserved if efforts are made to ensure that the wealth is widely circulated in the economy through means that meet the objective of Shariah. Any practices that hinder the circulation of wealth among all sectors of economy will infringe efforts to preserve wealth hence the *Maqasid al Shariah* will not met. Practices such as monopoly and hoarding (Ibn Ashur, 2006) will contravene with the principle of wealth circulation (*Ar Rawaj*) and the preservation of wealth (*hifz al mal*) hence *Maqasid al Shariah* will not be materialised. Consequently, ensuring the functioning of wealth circulation incorporates the efficient wealth management to ensure wealth is equally distributed and benefits individuals, small or large groups (Ibn Ashur, 2006). Other factors to be considered in preserving wealth are transparency (*al wudhuh*), wealth preservation (*hifz al mal*), justice in wealth (*al adl*) and clear ownership (*at thabat*).

Additionally, to ensure that the wealth is circulated among all sections of society various forms of contract are introduced in Islam including the contract of exchange (*muawwadat*), contract of donation (*tabarru'*) and partnership (*musyarakat*) (Engku Ali, 2013). The operationalisation of zakat and waqf are also manifestation of wealth circulation as oppose to the control of wealth among the few only.



The above discussions are in line with the verses in Al Quran as below:

And what Allah restored to His Messenger from the people of the towns – it is for Allah and for the Messenger and for [his] near relatives and orphans and the [stranded] traveller – so that it will not be a perpetual distribution among the rich from among you. And whatever the Messenger has given you – take; and what he has forbidden you – refrain from. And fear Allah; indeed, Allah is severe in penalty.

(Al Hasyr, 59:7)

Your Lords knows that you stand in prayer nearly two-thirds of the night, or one-half or a third of it, as do some of your followers. It is Allah who determines the measure of night and day. He is aware that you will not be able to keep a measure of it, and therefore He turns towards you in His grace. Recite of the Qurán as much as may be easy for you. He knows that some of you will be sick, others will go about in the land seeking God's bounty, and others will be fighting for Allah's cause. Therefore, recite whatever you may with ease. Attend regularly to prayer, pay your obligatory charity (i.e. zakat), and give Allah a goodly loan. Whatever good you may offer on your own behalf, you shall find it with Allah to be better and richer in reward. Seek Allah's forgiveness, for Allah is Much-forgiving, Ever Merciful.

(Muzzammil, 70:20)

MAQASID AL SHARIAH, HIFZ AL MAL, AR RAWAJ IN ISLAMIC FINANCE

Mohammad, Joni Tomkin and Mohamad (2012), citing Ibn Asyur (1999), states that Islam clearly prohibits the circulation of wealth among the few and argue that Islamic Banking assures the circulation of wealth by prohibiting interest i.e. *riba* on their products and services. This is done via financing based on the contract of buy and sell as well as the principle of profit sharing. Habib Ahmed (2002) asserts that these two methods will encourage efficient allocation of wealth, stability and reduce poverty.

Laldin & Furqani (2013) looks at the bigger picture of the role of IBF industry as the intermediary for allocating the wealth from the surplus unit to the deficit unit. This function enables the wealth circulation in the economy hence fulfilling the principle of *rawaj* as one vital elements of wealth preservation and eventually meeting the *Maqasid al Shariah*. Under the modern financial system, it is impossible for the deficit unit to be able to have access to the excess fund from the surplus unit without the efficient functioning of IBF industry. Laldin et al. (2013) also claim that the progress of IBF is consistent with wealth circulation parameters by adhering to the rules of permissible and prohibited with the aim of preserving wealth (*hifz al mal*). Jakab & Kumhof (2015) however reject Laldin et al. (2013)'s argument that banking industry acts as the intermediation for the economy. This is also consistent with Werner (2014)'s study who

dismiss intermediation theory of banking which suggest that bank acts as an intermediation.

Awang & Asutay (2017)'s study critically analysed the contract of *Al-Ijarah Thumma al-Bai'* (AiTAB) and Hire-Purchase contract in the light of *Maqasid al Shariah* framework. They suggest for the abolishment of interest practice and propose Hire Purchase Act 1967 to be customised with *Shariah* principles. In another study Lateef, Abdurrazzaq, Abdul Shukor & Tajudin (2017) scrutinize *ijarah* contract and highlight the benefits of applying *Maqasid al Shariah*. They also analyse *ijarah* contract in relation to the *maqasid hifz al mal* i.e. *rawaj*, *hifz*, *wudhuh*, *ádl* and *thabat*. They argue that *ijarah* contract as applied in the present IBF in accordance with the objective of wealth circulation (*rawaj*) as the lessee benefits from the usage of the leased asset and in return pay the rent to the lessor. Yaakub, Mohamed Adil, Husin, Muhamad, Khalid & Shahrudin(2014), in their study on the usage of *ta'widh* and *gharamah* to mitigate the cases of late payment and default issues in Islamic Banking industry, found that such practices are allowed and vital to ensure the its sustainability and eventually meeting *Maqasid al Shariah*. Mohammad & Shahwan (2013) studied the variation of Islamic economics objectives with Islamic Banks'objectives using *Maqasid al Shariah*'s framework. They looked at the literatures by selected prominent Islamic economists including Chaudry, Maududi, Khan and Chapra. The study found five elements of *Maqasid al Shariah* were fully observed in the objectives of Islamic economics and Islamic Banks. Fakhri & Khairul Anuar (2018) however, cautious when describing IBF meets the requirement of *Maqasid al Shariah* but remain positive. They saw the biggest challenge facing the industry is the clash between the interest of the IBF industry and the interest of the society. The conflict centred on the products offered that should meet the *Maqasid al Shariah* as well as providing value to the customers and at the same time not at the expense of the return to the banks and commercial value. They took a pragmatic stand in arguing that the action by the industry players who are forced to protect the interest of the industry for the failure to adopt Islamic economists' suggestion for the equity-based instruments as the criteria for meeting the *Maqasid al Shariah*.

The above literatures on the analyses of IBF with respect to *Maqasid al Shariah* indicate positive result. On the contrary to the above, research by El Gamal (2006), Dusuki (2008) Meera & Labarni (2009) and Al Mubarak & Osmani (2010) found there are issues that the industry needs to resolve. Dusuki (2008)'s investigation on the Profit-Loss-Sharing (PLS) mechanism of which IBF should be based on, found in practice the industry has diverted to debt-based instruments. Meera et al. (2009) examined the issue of money and money creation. Al Mubarak et al. (2010) inspected on the widely used *Bay'Bithaman Ájil* (deferred sales contract) and *bay'al inah*. They suggested for the two contracts be revised to ensure the fulfilment to the *Maqasid al Shariah*.



Below is the summary of the above studies that relate to the *Maqasid al Shariah*:

Table 1: Summary of Literatures on Islamic Banking and Finance in Relation to *Maqasid al Shariah*

	Authors	Subject Matter studied
1	Mohammad, Joni Tomkin and Mohamad (2012)	Prohibiting interest i.e. <i>riba</i>
2	Laldin & Furqani (2013)	Intermediary role of Islamic Banking and Finance
3	Awang & Asutay (2017)	Al-Ijarah Thumma al-Bai' (AiTAB) and Hire-Purchase
4	Lateef, Abdurrazzaq, Abdul Shukor & Tajudin (2017)	<i>Ijarah</i> contract
5	Yaakub, Mohamed Adil, Husin, Muhamad, Khalid & Shahrudin (2014)	<i>Ta'widh</i> and <i>gharamah</i>
6	Mohammad & Shahwan (2013)	Variation of Islamic economics objectives with Islamic banks 'objectives
7	Fakhri & Khairul Anuar (2018)	Profit-Loss-Sharing (PLS) mechanism and equity-based mechanism
8	Dusuki (2008)	Profit-Loss-Sharing (PLS) mechanism
9	Al Mubarak & Osmani (2010)	<i>Bay'Bithaman Ájil</i> (deferred sales contract) and <i>bay'al inah</i> .

Literatures number 1 – 7 found IBF meets the requirement of *Maqasid al Shariah* while literatures 8 and 9 found there are issues to be resolved. All of the above researchers, however, did not discuss the issue of money creation by IBF which is fundamental to the discussion of *Maqasid al Shariah* generally and the principle of *Ar Rawaj* in particular. Even Dusuki (2008), Meera et al. (2009) and Al Mubarak et al. (2010) who questioned certain practices of IBF with respect to *Maqasid al Shariah* did not discuss the element of bank's money creation.

Ar Rawaj in Islamic Banking and Finance

From the above discussion it is understood that *Maqasid al Shariah* will not be achieved if wealth is not preserved. Consequently, the attempt to preserve wealth will be ruined if wealth is circulated among the few. Therefore, endeavour must be geared towards guaranteeing wealth is smoothly circulated in the economy. Any practices that lead to the disruption of wealth being smoothly disseminated in the economy will jeopardise wealth preservation and eventually the *Maqasid al Shariah*. This paragraph will



document the evidences and practices by IBF that allow the wealth is smoothly shared and dispersed in the economy therefore materialised the concept of *rawaj*.

Shariah, being the primary sources of IBF, emphasizes on ensuring that all sectors of society can participate in the financial and economic activities and this is achieved by the concept of *rawaj*. *Rawaj* literally means to circulate and to spread. As one of the prerequisites for the preservation of wealth, the principle of *rawaj* means that the wealth must be circulated and spread in the community and wealth circulation includes all the processes related to wealth creation, consumption and distribution (Laldin et al., 2013). Wealth creation incorporates all activities that can create and accumulate wealth including savings and investments. IBF industry's core business is the provision of savings, investments and financing products. The utilisation of wealth to generate more wealth such as financing as offered by IBF, while distribution refers to the zakat. Under the modern economic system, circulating wealth in the society and economy is done via the commercial and financial activities (Laldin et al., 2013).

The principle of *ar rawaj* necessitates the services and products offered by the IBF industry to be meeting the Shariah parameters as the benchmark for the offerings to be acceptable by the customers. IBF industry has in place all the paramount framework to ensure the Shariah compliant aspect includes Shariah Governance Framework as well as the establishment of Shariah Advisory Council and Committees at all industry players and the regulators. The industry's offering must also be marketable and meet the customers' need which is the basic criteria for any products and services to be offered. These criteria will ensure IBF products and services are widely accepted by the customers contributing to the circulation of wealth in the economy.

Financing products catered by Islamic Banking Finance industry play essential role in satisfying the principle of *Ar Rawaj*. As the only entity in the economy that provides the linkage between the 'funder' and the party that yearn for the fund, the industry provides financing products as mechanism to serve this purpose. Hence all the practices and processes involved with respect to the financing products contributing to accomplishing the foundation of *Ar Rawaj*. These practices include Know Your Customer convention, systematic applications evaluation by the banks are pertinent in ensuring that the financing is disbursed to the qualified and legitimate customers. This is also to make sure that wealth is circulated and productively used for the generation of wealth. As the financing may involve defaults, the practice *ta'widh* and *gharamah* are vital to ensure that the smooth circulation of wealth is not affected.

Shariah gives great emphasise on achieving the principle of *rawaj*. This is to ensure that the people have access to and able to participate in the financial activities. The Shariah is against the concentration of wealth amongst certain sectors of the society (Azman Mohd Nor & Mohd Nasir Haron, 2016). This is to ensure that the wealth is continuously circulated among the society as described in the Quran, surah Al Hasyr, verse 7



In an effort to safeguard the principle of *rawaj*, Shariah puts forward various contracts such as *musyarakah* and *mudharabah* (Engku Ali, 2013; Azman Mohd Nor & Mohd Nasir Haron, 2016). The principle of *rawaj* also entails the prohibition and permissible in wealth preservation (Laldin et al., 2013). Laldin et al. (2013) also argued that mechanisms to circulate wealth among all the sections of society and all sectors of economy include commercial and financial activities.

CONCLUSION

IBF is more than just an important sector in the economy. It goes beyond *muamalat*. It is about the religion of Islam hence all requirements must be met. Any practices and offerings by the industry that compromise the *Maqasid al Shariah* as well the principle of *Ar Rawaj* would affect the sanctity of Islam as a religion. While the non-Muslim Western researchers have repeatedly and critically question the money creation mechanism by conventional banking and finance, IBF researchers and practitioners are tongue tied on the matter. They are occupied solving technical issues pertaining to the *Shariah* contracts applied and other affairs. Attempt must be made and publicly discuss on the issue of money creation. In non-Muslim countries such as United Kingdom, United State America, Sweden and other parts of Europe, researchers have implemented alternative models deviating from the money creating model.

It is understandable the difficulties and challenges faced by the Shariah advisors and industry practitioners of IBF as the industry is operating under the non-Islamic friendly environment. The development of the industry thus far is very commendable considering the obstacles faced. Their tireless and undying commitments in making the industry meeting the international standards without compromising the Shariah parameters are well documented.

Notwithstanding the above, as IBF is about the religion of Islam, what detrimental to the religion is not open for bargain. The divinity of the religion is of utmost important. Literatures on money creations have shown the unfavourable consequences to the wellbeing of the society and the livelihood of the people. Operational working banking models that depart from money creation mechanisms are available to be explored. Serious efforts must be initiated to study the money creation issues by the industry stakeholders.

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