

Differences between Islamic and Conventional Banking Products

Differences between Islamic Current Account and Conventional Current Account

Islamic	Conventional
<p>The account is based on the concept of “Qard” where the Customer is “lender” and the Bank is “borrower”. Islamic Bank may at its discretion uses such funds as it deems fit in approved Shariah Compliant products / avenues to earn Shariah compliant earnings / profits. The amount deposited by Customer in this account shall remain payable by the Bank to the customer, on demand.</p>	<p>In Conventional banking, customer’s deposited funds under current account are based on loan in which the customer is the lender and the Bank is the borrower. Conventional Bank invests the funds without any Shariah restrictions .</p>
<p>Any benefit on the basis of Current Account (loan) will be tantamount to Riba (interest), therefore services without any fee, are offered to all depositors across the board without giving any priority to current account depositors over saving account depositors. No profit is paid on these accounts.</p>	<p>Although conventional banks do not provide any interest to depositors for their funds, the Bank uses these funds in interest based money lending to generate its Shariah non-compliant earnings. Furthermore the services without any fee, are offered by Conventional bank to current account holders with priority over saving account holders. This priority also tantamount to interest.</p>

Differences between Islamic & Conventional Saving / TDR Products

Islamic	Conventional
<p>Islamic Saving and Fixed / Term deposit accounts are profit bearing accounts based on the principles of Mudarabah, a form of partnership in which one partner provides capital (depositors) and other partner (Islamic Bank) renders its services/expertise for investing the fund in commercial profitable avenues.</p>	<p>Conventional products are based on loan and interest is paid on it as a compensation.</p>
<p>The relationship between bank and depositors are of “Rabb-ul-Maal” (Capital Provider) and Bank is “Mudarib” (Fund Manager).</p>	<p>The relationship of bank and depositors are of lender and borrower.</p>
<p>The Bank may, at its discretion, use or employ such funds as it deems fit in avenues approved by Shariah Board of the Bank.</p>	<p>Conventional Bank may use the amount deposited in accounts regardless of Shariah prohibition.</p>
<p>The Bank shall share the profit on the basis of pre-announced Profit sharing ratio / weightages with the customers.</p>	<p>Depositors are paid at a pre agreed interest rate.</p>

Differences Between Islamic & Conventional Banking Financing Products

Murabahah / Musawamah Financing	Conventional Working Capital Financing
Murabahah/Musawamah is a “Sale” contract, whereby, Islamic bank sells an asset (goods / commodities) to customer.	The basis of Working Capital Finance is a “loan (qard)” contract, whereby bank lends money to customer.
The relationship between parties is of buyer (customer) and the seller (Islamic bank).	The relationship between parties is of borrower (customer) and lender (bank).
Income on Murabahah/Musawama is outcome of sale i.e. profit	Income on loan is based on interest received from the customer.
Risks related to asset ownership are borne by the Islamic bank till the time the assets are sold to the customer.	Bank does not bear the risks related to ownership of asset/business.
In case of delayed payment, the customer undertakes to pay Charity which doesn't become part of the income of the Bank and it is used in Charitable purposes.	Interest continues to accrue as a part of the bank's income till the loan is repaid

Istisna Financing	Conventional Working Capital Financing
A sale contract whereby bank purchase the asset which needs to be manufactured by the customer.	A loan contract, whereby bank lends money to customer
The relationship between bank and customer is that of buyer (Islamic bank) and seller (customer).	The relationship between conventional bank is that of borrower (customer) and lender (conventional bank).
Istisna financing can be effected only for contracts of production (manufacturing, construction and assembling) and value addition (processing).	There is no such requirement as the transaction is loan based.
When the Goods are Received by bank (owner of the goods), it appoints the customer as its agent to sell the goods to 3rd party buyers; and the risks related to ownership of goods are borne by the Islamic bank until the goods are sold in the market.	Conventional bank does not bear the risks related to ownership of asset.
Income on Istisna is the outcome of sale i.e. profit	Income is based on Interest on loan.
As the owner of the goods any loss arising out of the sale of goods is borne by the Islamic bank, unless the loss is due to misconduct or negligence of the agent.	Conventional bank does not deals in goods, hence, does not bear any such loss.

Salam Financing**Conventional Working Capital Financing**

Salam Financing is one of the Sharia Complaint alternatives of Working Capital Financing. Salam a sale contract whereby bank purchase the asset needs to be produce/ cultivated by the customer for e.g. Agricultural crops. The price is paid in advance by the Islamic bank whereas the commodities are to be delivered by customer at a future date.

A loan contract, whereby bank lends money to customer.

The relationship between parties is of seller (customer) and buyer (Islamic bank).

The relationship between parties is of borrower (customer) and lender (bank).

Salam can be effected only for those commodities which are homogeneous (quantity and quality exactly specified) in characteristic.

There is no such requirement as the transaction is loan based.

When the goods are received by the bank (owner of the goods). it appoints the customer as its agent to sell the goods to 3rd party buyers; and the risks related to ownership of goods are borne by the Islamic bank until the goods are sold in the market.

Conventional bank does not bear the risks related to ownership of asset.

Income on Salam financing is based on the profit received from the sale of Salam goods/commodities in the market.

Income on loan is based on interest (Riba) received from the customer.

As the owner of the goods any loss arising out of the sale of goods is borne by the Islamic bank, unless the loss is due to misconduct or negligence of the agent.

Conventional bank does not deals in goods, hence does not bear any such loss.

Diminishing Musharakah (DM)	Conventional Long Term Financing
It is a Shirkat-ul-Milk/Joint Ownership contract.	It is a loan contract.
A jointly owned asset of DM, subsequently divided into units of ownership (referred as Musharakah Units).	There is no such concept found since conventional banks treat Money/Currency as commodity.
The relationship between Islamic bank and customer is of partners (joint ownership of asset).	The two parties involved in this activity act as borrower (customer) and lender (Conventional Bank).
The asset is jointly owned by the customer and bank and the risk is shared in proportion of ownership.	Asset is owned by the customer and all risks are borne by him. Conventional bank does not bear any kind of risk related to the ownership of the asset.
Income is generated by renting out bank's owned share to customer.	Income is generated by charging interest on loan.
In case Musharakah asset is destroyed, or if it is not in usable condition then rentals will not be charged due to the unavailability of utilization of asset.	Since the conventional Bank executes loan-based transaction, therefore customer would be liable to pay interest payment till the settlement of the transaction.
In case of late rental payments, customer undertakes to pay an amount in terms of charity which does not become the part of bank's income and is utilized for charitable purposes.	In case of delayed payment, a penalty (additional interest) is charged and taken to bank's income.

Ijarah Financing	Conventional Lease Financing
The Lease period starts In Ijarah, when the asset has been delivered to the Lessee Customer) in a usable condition. Delivery of asset is a mandatory condition in Ijarah. Rentals start after delivery of asset to lessee.	In Conventional Lease, the lease period starts after the disbursement made by the bank. Delivery of asset is not a mandatory condition. Lease Rentals may start before the delivery of asset to customer.
In Ijarah, any damage/loss to the asset will be beared by the Lessor, except where the damage is caused by the Lessee’s neglect.	In conventional lease, any damage or loss to the asset, will be beared by the Lessee regardless of his negligence.
If the Ijarah asset is destroyed (total loss), the Ijarah will be terminated.	If the leased asset is destroyed (total loss), the bank may continue to receive rentals .
Bank is the owner of the asset, therefore all ownership related expenses are initially borne by the Bank.	Ownership related Expenses will be borne by the customer.
In case of Major Loss , Rent shall not be charged to customer in which asset is being repaired for a long period of time.	Installment shall not be stopped, if asset was in major loss repairable condition.
In case Ijarah asset is not in usable condition then in such case rentals will be stopped and will not be charged due to the unavailability of utilization of asset.	Since the conventional Bank executes loan-based transaction, therefore customer would be liable to pay interest payment till the settlement of the transaction.
At the end of Ijarah transaction, Ijarah asset is transferred to the lessee through a Separate and independent Shariah Compliant Contract.	Under Conventional leasing contracts, the vehicle is automatically transferred to the customer in the name of customer upon completion of the lease period, which is against the shariah principles.
Customer pays charity in case of delayed payment of rentals, which will be utilized exclusively in charitable avenues.	A penalty (interest) is charged in case of late payment of installments, and late payments are one of the sources of income of Conventional Bank.

Running Musharakah Financing	Running Financing
<ul style="list-style-type: none"> •It is a partnership contract. Running Musharakah is based on the Islamic principle of Shirkat-ul-Aqd. •Income is earned when Bank participates in the operating activities of the customer and shares profit and loss whereas profit is shared as per agreed Profit sharing ratio and Loss is shared as per Musharakah Investment. Final settlement of profit will be related to the actual performance of the business of the respective MRF period. 	<p>Running Finance is a revolving finance .Once the finance limit is approved, then the borrower is free to withdraw amounts to the extent of that limit. The borrower can withdraw and repay the amount as many times as he wishes but he has to pay mark-up on the amount which he has actually used on monthly basis. Income is generated by charging mark-up on loan.</p>
<p>The core business activities of client need to be lawful and Shari’ah compliant.</p>	<p>Client’s business must be lawful but not necessarily a Shari’ah compliant business.</p>
<p>The bank and client act as partners until the end of Musharakah Period.</p>	<p>The relationship between both the parties is of borrower (customer) and lender (bank).</p>
<p>The bank and the client will share the profit as per pre-agreed profit sharing ratio and bear the loss to the extent of investment. Bank and the Customer will have two Profit Sharing Ratios (PSR): Tier 1 Profit Sharing Ratio (PSR) and Tier 2 Profit Sharing Ratio (PSR).</p>	<p>In running finance, the bank is concerned only with the amount it has allowed the customer and the interest it is going to receive. No Profit Tiers in Running Finance.</p>