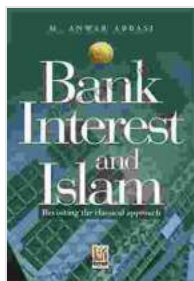


# Bank Interest and Islam: Revisiting the Classical Approach

The issue of bank interest has been a contentious one in Islamic finance for centuries. The classical approach to this issue has been to prohibit the payment and receipt of interest, based on the interpretation that it is a form of usury (riba). However, in recent years, there has been a growing movement to revisit this classical approach and to argue that there may be ways to reconcile the prohibition of interest with the need for a modern financial system.

## The Classical Prohibition of Interest

The classical prohibition of interest is based on the following Quranic verses:



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***““Those who swallow usury cannot arise except like him who is beaten down by Satan with insanity. That is because they say, ‘Trade is just like usury.’ But Allah has permitted trade and forbidden usury.” (Quran 2:275)***

***“O you who believe! Fear Allah and give up any outstanding interest if you are true believers. If you do not, then be warned of a war from Allah and His Messenger. But if you repent, you may keep your capital. Neither wrong others nor be wronged.” (Quran 2:278-279)”***

These verses have been interpreted by classical scholars to mean that any form of interest, no matter how small, is prohibited. This prohibition has been applied to all types of loans, including personal loans, business loans, and government bonds.

## **The Need for a Modern Financial System**

The classical prohibition of interest has presented a challenge to the development of a modern financial system in Muslim-majority countries. In a modern financial system, interest is used to allocate capital and to manage risk. Without interest, it is difficult to see how a modern financial system could function.

For example, businesses need to borrow money to invest in new equipment and expand their operations. If they cannot borrow money at a reasonable interest rate, they will be less likely to invest and grow. This can lead to slower economic growth and fewer jobs.

Individuals also need to borrow money to buy homes, cars, and other goods and services. If they cannot borrow money at a reasonable interest rate, they will be less likely to make these purchases. This can lead to a lower standard of living for many people.

## **Revisiting the Classical Approach**

In recent years, there has been a growing movement to revisit the classical approach to bank interest. This movement has been led by a number of Islamic scholars who argue that the classical prohibition of interest is based on a misinterpretation of the Quranic verses. These scholars argue that the Quran does not prohibit all forms of interest, but only those that are excessive or exploitative.

One of the leading proponents of this new approach is Dr. Muhammad Taqi Usmani. In his book *An to Islamic Finance*, Usmani argues that the Quranic prohibition of interest is only applicable to loans that are made for consumption purposes. He argues that loans that are made for investment purposes are not subject to the prohibition of interest.

Usmani's approach has been adopted by a number of Islamic financial institutions, which have developed a range of interest-free lending products. These products are designed to meet the needs of businesses and individuals who need to borrow money.

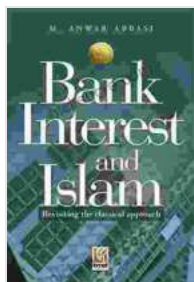
The issue of bank interest is a complex one with no easy answers. The classical approach to this issue has been to prohibit the payment and receipt of interest, but this approach has presented a challenge to the development of a modern financial system in Muslim-majority countries.

In recent years, there has been a growing movement to revisit the classical approach and to argue that there may be ways to reconcile the prohibition of interest with the need for a modern financial system. This movement has been led by a number of Islamic scholars who argue that the Quranic prohibition of interest is based on a misinterpretation of the Quranic verses. These scholars argue that the Quran does not prohibit all forms of interest, but only those that are excessive or exploitative.

The debate over bank interest is likely to continue for many years to come. However, the growing movement to revisit the classical approach is a sign that there may be a way to find a solution to this complex issue.

## Further Reading

\* The Classical Approach to Bank Interest \* Interest Prohibited in Islam \*  
Bank Interest and Islamic Banking

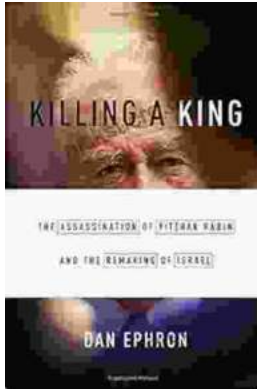


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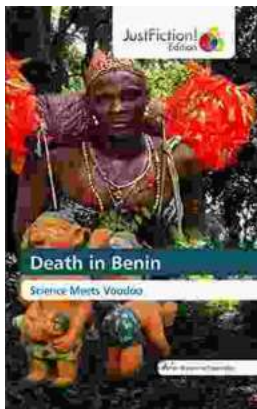
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