

# Issues of Bai Tawarruq in Islamic Banks of Pakistan

**Ms.IBF Theses**

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# Abstract

The evolution of Islamic banking and finance has tremendously influenced the economy world-wide, especially in Islamic countries. In recent decades, Islamic banking has become a major competitor of conventional banking system. Conventional banking users are increasing day by day due to its Sharia compliant principles and Islamic banking diversified range of products. Tawarruq is one of the Islamic banking products which is commonly used in Islamic banks. This research has focused on the fiqh perspectives of Tawarruq and its implementation issues in Islamic banking system. In this research, initially we have done the empirical study considering secondary data as qualitative methods. In the result, we analyzed that the research is based on different views of the followers and challenger towards the legality of Tawarruq in Islamic fiqh. The basic condition of valid sale is considered better than that the other aspects, and it has been reviewed by scholars of the field for valid sale according to sharia compliant. Due to that the legality of Tawarruq, it has been discussed by sharia scholars. There are some rules and resolutions in Islamic countries for the legality of Tawarruq. In actual practice, Tawarruq is used as a commodity Tawarruq in Malaysia and in Middle East countries, it deals with commodity transaction through Tawarruq principle. Based on the comparative study and literature results, we explored that Tawarruq is permissible with certain condition if it is strictly followed according to Sharia compliant, otherwise Tawarruq is not allowed.

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## Table of Content

Abstract .....	2
Acknowledgement .....	3
Chapter 1 .....	9
1.1 Introduction.....	9
1.2 Islamic banking history in Pakistan .....	<b>Error! Bookmark not defined.</b>
1.3 Tawarruq: An Islamic banking product .....	<b>Error! Bookmark not defined.</b>
1.4 Significance of Research.....	<b>Error! Bookmark not defined.</b>
1.5 Problem statement.....	<b>Error! Bookmark not defined.</b>
1.6 Research Question .....	<b>Error! Bookmark not defined.</b>
1.6.1 Subsidiary Research Question .....	<b>Error! Bookmark not defined.</b>
1.6.2 Objectives .....	<b>Error! Bookmark not defined.</b>
1.7 Literature Review.....	<b>Error! Bookmark not defined.</b>
1.8 Methodology .....	<b>Error! Bookmark not defined.</b>
1.9 Data collection .....	<b>Error! Bookmark not defined.</b>
1.9.1 Books .....	<b>Error! Bookmark not defined.</b>
1.9.2 Articles.....	<b>Error! Bookmark not defined.</b>
1.9.3 Others sources.....	<b>Error! Bookmark not defined.</b>
1.9.4 Websites.....	<b>Error! Bookmark not defined.</b>
1.10 Data analyses .....	<b>Error! Bookmark not defined.</b>
1.11 Chapter outlines .....	<b>Error! Bookmark not defined.</b>
Chapter 2.....	<b>Error! Bookmark not defined.</b>
The Concept of Tawarruq .....	<b>Error! Bookmark not defined.</b>
2.1 Introduction.....	<b>Error! Bookmark not defined.</b>
2.2 Definition .....	<b>Error! Bookmark not defined.</b>
2.2.1 Literal Meaning.....	<b>Error! Bookmark not defined.</b>
2.2.2 Technical meaning .....	<b>Error! Bookmark not defined.</b>
2.3 The Difference between ‘Inah and Tawarruq’ .....	<b>Error! Bookmark not defined.</b>
2.4 Types of Tawarruq.....	<b>Error! Bookmark not defined.</b>
2.4.1 Individual Tawarruq.....	<b>Error! Bookmark not defined.</b>

2.4.2 Organized Tawarruq .....	<b>Error! Bookmark not defined.</b>
2.4.2.1 Difference between organized Tawarruq and Individual Tawarruq ..	<b>Error! Bookmark not defined.</b>
2.4.3 Banking Tawarruq .....	<b>Error! Bookmark not defined.</b>
2.5 Forms of Tawarruq .....	<b>Error! Bookmark not defined.</b>
2.5.1 Forms of individual Tawarruq .....	<b>Error! Bookmark not defined.</b>
2.5.2 Forms of organized Tawarruq.....	<b>Error! Bookmark not defined.</b>
2.6 Sharia views on Tawarruq .....	<b>Error! Bookmark not defined.</b>
2.6.1 Classical view on Tawarruq.....	<b>Error! Bookmark not defined.</b>
2.6.1.1 Permissible.....	<b>Error! Bookmark not defined.</b>
2.6.1.2 Reprehensible.....	<b>Error! Bookmark not defined.</b>
2.6.1.3 Prohibited element .....	<b>Error! Bookmark not defined.</b>
Chapter 3.....	<b>Error! Bookmark not defined.</b>
Tawarruq Financial system.....	<b>Error! Bookmark not defined.</b>
3.1 Introduction.....	<b>Error! Bookmark not defined.</b>
3.2 Islamic financial system.....	<b>Error! Bookmark not defined.</b>
3.3 Principle of Islamic financial system .....	<b>Error! Bookmark not defined.</b>
3.3.1 Interest avoidance .....	<b>Error! Bookmark not defined.</b>
3.3.2 Risk sharing .....	<b>Error! Bookmark not defined.</b>
3.3.3 Money as potential capital .....	<b>Error! Bookmark not defined.</b>
3.3.4 Prohibition of speculative behavior .....	<b>Error! Bookmark not defined.</b>
3.3.5 Sanctity of contract .....	<b>Error! Bookmark not defined.</b>
3.3.6 Sharia approved activity .....	<b>Error! Bookmark not defined.</b>
3.4 Basic instrument.....	<b>Error! Bookmark not defined.</b>
3.4.1 Market trend.....	<b>Error! Bookmark not defined.</b>
3.5 Islamic financial instruments .....	<b>Error! Bookmark not defined.</b>
3.5.1 Murabha (cost plus profit).....	<b>Error! Bookmark not defined.</b>
3.5.2 Ijarah (leasing) .....	<b>Error! Bookmark not defined.</b>
3.5.3 Mudarabah (Profit sharing agreement) .....	<b>Error! Bookmark not defined.</b>
3.5.4 Musharakah (Equity participation) .....	<b>Error! Bookmark not defined.</b>
3.5.5 Sales contract .....	<b>Error! Bookmark not defined.</b>
3.6 Issues and challenges in Islamic financial system .....	<b>Error! Bookmark not defined.</b>
3.7 Financial system of Tawarruq in Pakistan .....	<b>Error! Bookmark not defined.</b>
3.7.1 Tawarruq in deposit product .....	<b>Error! Bookmark not defined.</b>

3.7.2 Tawarruq in product financing.....	Error! Bookmark not defined.
3.7.3 Tawarruq in sukuk .....	Error! Bookmark not defined.
3.7.4 Tawarruq in interbank money market .....	Error! Bookmark not defined.
3.8 Rules of Tawarruq.....	Error! Bookmark not defined.
3.8.1 Evidence on its permissibility .....	Error! Bookmark not defined.
3.8.2 Tawarruq impermissibility and their evidence.....	Error! Bookmark not defined.
3.8.3 Evidence for those who prohibits.....	Error! Bookmark not defined.
3.8.3.1 Answering for the evidence who prohibit.....	Error! Bookmark not defined.
3.9 Ruling for organized banking Tawarruq.....	Error! Bookmark not defined.
3.10 Rule of reverse Tawarruq.....	Error! Bookmark not defined.
Chapter 4.....	Error! Bookmark not defined.
Implementation of Tawarruq .....	Error! Bookmark not defined.
4.1 How Tawarruq implemented in Islamic banks .....	Error! Bookmark not defined.
4.1.1 Implementation of Tawarruq in Malaysia.....	Error! Bookmark not defined.
4.2 Analyses on the Application of Tawarruq .....	Error! Bookmark not defined.
4.3 Analyses of Sharia position of Murabha and Tawarruq.....	Error! Bookmark not defined.
4.3.1 Parties Involvement by Qualification and Entrance in Contract by Mutual Agreement.....	<b>Error! Bookmark not defined.</b>
4.3.2 Subject Matter.....	Error! Bookmark not defined.
4.3.3 Delivery of Goods and Transfer of the Ownership of Goods .....	Error! Bookmark not defined.
4.3.4 Price or Dhaman .....	Error! Bookmark not defined.
4.4 Analysis on Tawarruq practice in Malaysia.....	Error! Bookmark not defined.
4.4.1 Sharia Position .....	Error! Bookmark not defined.
4.4.2 Product.....	Error! Bookmark not defined.
4.5 Tawarruq Deposit on Wakala base .....	Error! Bookmark not defined.
4.5.1 Term deposit based on Tawarruq.....	Error! Bookmark not defined.
4.6 Analyses on the presence of Wakala principle in Tawarruq.....	Error! Bookmark not defined.
Chapter 5.....	Error! Bookmark not defined.
Analyses of Tawarruq .....	Error! Bookmark not defined.
5.1 Institute of Islamic financial services (IIFS's).....	Error! Bookmark not defined.
5.2 ICFA's position on Tawarruq .....	Error! Bookmark not defined.
5.3 AAOIFI standards of Tawarruq .....	Error! Bookmark not defined.
5.3.1 AAOIFI sharia standard 30.....	Error! Bookmark not defined.

5.4 Significance of Tawarruq.....	Error! Bookmark not defined.
5.4.1 Availability of Tawarruq.....	Error! Bookmark not defined.
5.4.2 Phase out .....	Error! Bookmark not defined.
5.5 State bank of Pakistan (SBP) framework.....	Error! Bookmark not defined.
5.5.1 Board of Director’s Role.....	Error! Bookmark not defined.
5.5.2 Role of executive management .....	Error! Bookmark not defined.
5.6 Sharia board .....	Error! Bookmark not defined.
5.6.1 Role of sharia board .....	Error! Bookmark not defined.
5.6.2 Report of sharia board.....	Error! Bookmark not defined.
5.7 Liquidity Management of Tawarruq .....	Error! Bookmark not defined.
5.7.1 Liquidity Management .....	Error! Bookmark not defined.
5.7.2 Liquidity Risk .....	Error! Bookmark not defined.
5.7.2.1 Source of liquidity risk.....	Error! Bookmark not defined.
5.7.2.2 Risks related to Islamic banks.....	Error! Bookmark not defined.
5.8 Alternatives of liquidity Management .....	Error! Bookmark not defined.
5.8.1“Cash in hand” Consumer liquidity .....	Error! Bookmark not defined.
Chapter 6.....	Error! Bookmark not defined.
Issues and challenges in Tawarruq.....	Error! Bookmark not defined.
6.1 Elements of sale .....	Error! Bookmark not defined.
6.2 Conditions for subject matter .....	Error! Bookmark not defined.
6.3 Sale before possession .....	Error! Bookmark not defined.
6.3.1 Ordinance of sale before possession .....	Error! Bookmark not defined.
6.4 Arguable complication on legality of Tawarruq .....	Error! Bookmark not defined.
6.4.1 Permissibility .....	Error! Bookmark not defined.
6.4.2 Impermissibility .....	Error! Bookmark not defined.
6.5 Tawarruq Practicing Issues .....	Error! Bookmark not defined.
6.6 Financing and deposits based on Tawarruq .....	Error! Bookmark not defined.
6.7 Sharia risks and confusion .....	Error! Bookmark not defined.
6.8 Organized Tawarruq .....	Error! Bookmark not defined.
6.9 Problems facing Tawarruq in Islamic banking .....	Error! Bookmark not defined.
6.10 Critical issues on Tawarruq.....	Error! Bookmark not defined.
6.11 Conclusion .....	Error! Bookmark not defined.
References: .....	Error! Bookmark not defined.

## List of Figures

Fig(1) Source: Illustrated based on BNM resolution for Tawarruq-based deposit .....	33
Fig (2) Source: Illustrated based on BNM resolution for Tawarruq-based deposit .....	35
Fig (3) Source: Illustrated based on interview with An Investment Bank personnel .....	36
Fig (4) Economic growth system has explained in above section .....	37
Fig (5) Mechanism used in the Bursa Malaysia Suq Al-Sila .....	44
Fig (6) Structure of Term Deposit Based on Tawarruq.....	51

# Chapter 1

## 1.1 Introduction

In the capitalist financial system, money used to generate more money so conventional banks used loans lending activities commonly. However Islamic banks strictly prohibit interest. Loan treatment in conventional banking system is recorded as an asset in the balance sheet and balanced by liabilities including depositors or shareholders. The same treatment in Islamic banks is recorded as well.

Islamic banks and Islamic finance was not established in the time of prophet (S.A.W). But Islamic finance principles and rules was revealed from Al-Quran which concerning

“The permissibility of business and prohibition of riba”

It also supported by Hadith reported by Umer R.A

*“Let no one trade in our market except for those who has acquired knowledge in the Deen”*