

The Mirage Revealed: Navigating The Truth Behind 'Islamic Banking' and 'Finance'

By Fakhru'l Ummat Hadhrat Moulana
abdul Hamid Is'haq Sahib

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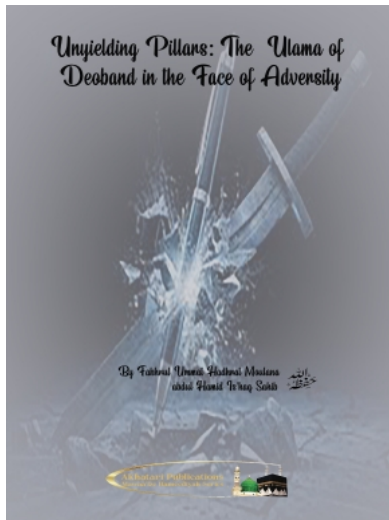
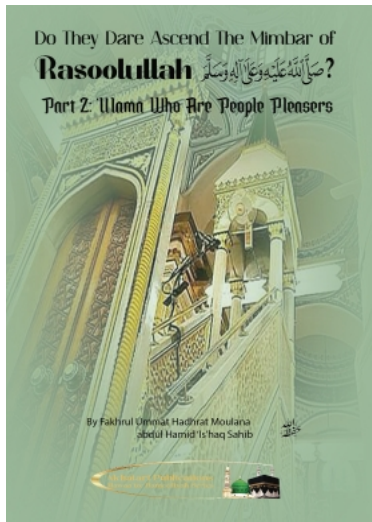
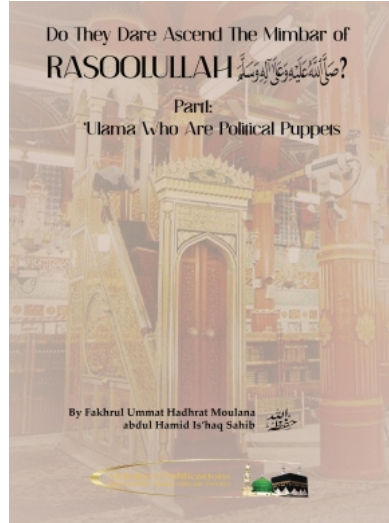
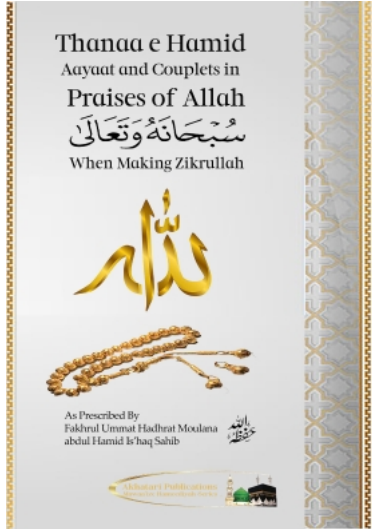
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The Mirage Revealed: Navigating the Truth Behind 'Islamic Finance' and 'Islamic Banking'

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Title: The Mirage Revealed: Navigating the Truth
Behind 'Islamic Finance and Banking'

A Discourse by: Hadhrat Moulana Abdul Hamid Sahib

Transcribed, Compiled,

and edited by: Rashid Kajee

First Edition: Rajab 1446 / January 2025

Publication no: kab

Published by:

Khanqah Akhtari, Azaadville.

Tel : (+2711) 413-2785/6,

Email: enquiries@ka.org.za

Web: www.ka.org.za

Blog: www.hamidiyyah.blogspot.com

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The Khutbah

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ
 الْحَمْدُ لِلَّهِ وَكَفَا وَسَلَامٌ عَلَى عِبَادِهِ الَّذِينَ اصْطَفَا
 الْحَمْدُ لِلَّهِ مَنْشِئِ الْخَلْقِ مِنْ عَدَمٍ ثُمَّ الصَّلَاةُ عَلَى الْمُخْتَارِ فِي الْقِدَمِ
 مَوْلَايَ صَلِّ وَسَلِّمْ دَائِمًا أَبَدًا عَلَى حَبِيبِكَ عَلَى رَسُولِكَ خَيْرِ الْخَلْقِ كُلِّهِمْ
 يَا رَبِّ صَلِّ وَسَلِّمْ دَائِمًا أَبَدًا عَلَى بَشِيرٍ نَذِيرٍ مُحَمَّدًا
 يَا رَبِّ صَلِّ وَسَلِّمْ دَائِمًا أَبَدًا عَلَى طه سَيِّدِ الْمُرْسَلِينَ
 بَلِّغْ سَلَامِي رَوْضَةً فِيهَا النَّبِيُّ الْمُحَرَّمِ يَا خَيْرَ مَنْ دُفِنَتْ بِالْقَاعِ أَعْظَمُهُ
 قَطَابَ مِنْ طِينِيهِنَّ الْقَاعِ وَالْأَكَمِّ رُوحِ الْفِدَا لِقَبْرِ أَنْتَ سَاكِنُهُ
 فِيهِ الْعَفْوَافُ وَفِيهِ الْجُودُ وَالْكَرَمُ
 هُوَ الْحَبِيبُ الَّذِي تُرْجَى شَفَاعَتُهُ لِكُلِّ هَوٍّ مِنَ الْأَهْوَالِ مُقْتَحِمِ
 يَا رَبِّ بِالْمُصْطَفَى بَلِّغْ مَقَاصِدَنَا وَاعْفِرْ لَنَا مَا مَضَى يَا وَاسِعَ الْكَرَمِ
 أَمَّا بَعْدُ فَقَدْ قَالِ اللَّهُ تَبَارَكَ وَتَعَالَى
 أَغْثُودُ بِاللَّهِ مِنَ الشَّيْطَانِ الرَّجِيمِ
 بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَلِكَ بِأَنَّهُمْ قَالُوا
 إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا فَمَنْ جَاءَهُ مَوْعِظَةٌ مِنْ رَبِّهِ فَانْتَهَى فَلَهُ مَا
 سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ وَمَنْ عَادَ فَأُولَئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ

صَلَّى اللَّهُ مَوْلَانَا الْعَظِيمِ

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Translation of the Khutbah

In the Name of Allah, the Most Gracious, the Most Merciful

Praise be to Allah, and enough is His grace,
Peace be upon His chosen ones, who stand in His embrace.

All praise to Allah, the Creator from naught,
Then blessings on the Chosen One, whose message was brought.

O my Master, bless and send peace forevermore,
Upon Your Beloved, the best of mankind, whom we adore.

O Sustainer, bless and send peace always, unbroken,
Upon the bearer of glad tidings, the one we've spoken.

O Sustainer, bless and send peace without end,
On 'Taha,' the leader of all who ascend.

Deliver my greetings to that blessed place,
Where the Respected Nabi ﷺ resides in eternal grace.

O Best of those whose bones are laid in the earth,
The land and its soil are fragrant with Your worth.

From the sweetness of Your resting place,
The ground and hills are touched with grace.

My soul is a ransom for Your resting space,
Where chastity and generosity grace.

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He is the Beloved whose intercession we yearn,
For every trial and test, His help we return.

O Sustainer, through the Chosen One, fulfill our need,
Forgive our past, in Your boundless Mercy we plead.

After this, Allah, the Almighty, has said:

"I seek refuge in Allah from the accursed Shaytan the accursed."

In the Name of Allah, the Most Gracious, the Most Merciful

"And your Sustainer says:

Those who consume Riba [usury] will not stand [on the Day of Resurrection] except like the standing of a person beaten by Shaitaan leading him to insanity. That is because they say: "Trading is only like Riba [usury]," Whereas, Allah has permitted trading and forbidden Riba [usury]. So, whosoever receives an admonition from Allah and stops consuming Riba [usury] shall not be punished for the past; his case is for Allah [to judge]; but whoever returns [to Riba [usury]], such are the dwellers of the Fire – they will abide therein.

[Surah Al-Baqarah: 2; Verse: 275]

Truthful is our Lord, the Almighty.

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Preface

Usury, or charging interest, is the unethical act of lending money in a way that unfairly benefits the lender. It can be seen as immoral because it takes advantage of people in difficult situations, and it is also illegal when the interest rate goes above what the law allows. Loans with extremely high or predatory interest rates are often labelled as usurious. The person who practices usury is called a usurer, but in modern English, they are more commonly known as loan sharks.

In recent decades, Islamic Finance has been a hot topic of discussion. Many scholars, including Muftis and 'Ulama, strongly argue that Islamic Finance is legitimate and successful. Some of these scholars even sit on the boards of financial institutions, assuring ordinary Muslims that their involvement makes these banks' Islamic Finance products permissible. This has led, and continues to lead, to Muslims unknowingly taking part in investments or loans that may involve Haraam (forbidden) practices.

This book does not come from a Mufti or a renowned 'Aalim. Instead, it is built on the honest reflections of a financier who openly admits his past mistakes. To show the importance of this book, let us look at a few key quotes from his interview that highlight its significance.

Ibrahim Khan (asks Haaris Irfaan): So, tell me about the doomsday fatwa. Every time you deposit a dollar in the bank, and they can lend ten dollars, they've created nine new dollars of new money.

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Haaris Irfaan: . . . in 1975, the first major Islamic bank was formed in Dubai, called Dubai Islamic Bank. At the same time, the Islamic Development Bank, which is a multilateral institution, was formed, and now you see the development of commercial, Islamic banking.

And at that point, you need to be regulated as a bank by the relevant authorities and if you are to be regulated as a bank, then you must be a fractional reserve institution. What does that mean? Well, it means that for every pound or dollar you deposit in the bank, they have the right to lend out more than is deposited in the bank.

That's the fraction, the fractional reserve. So, for example, they may lend out \$10 for every \$1 that's deposited. In other words, they've created nine new dollars from nothing really, it's a form of alchemy. It's money from nothing. If you were to ask a sensible person who knew nothing about it was not formally trained in economics,

“What do you think of this?”

They might reasonably conclude it's a form of fraud and yet, this is perfectly lawful.

Ibrahim Khan: Do all banks do this:

Haaris Irfaan: All banks do this.

Ibrahim Khan: British banks American banks . . .

Haaris Irfaan: *Every bank in the world that is regulated by a central bank is a fractional reserve institution.*

An Introduction to Usury

In many historical societies including ancient Christian, Jewish, and Islamic societies, usury meant the charging of interest of any kind, and was considered wrong, or was made illegal. At times, many states from ancient Greece to ancient Rome had outlawed loans with any interest. Though the Roman Empire eventually allowed loans with carefully restricted interest rates, the Catholic Church in medieval Europe, as well as the Reformed Churches, regarded the charging of interest at any rate as sinful [as well as charging a fee for the use of money, such as at a bureau de change]. Religious prohibitions on usury are predicated upon the belief that charging interest on a loan is a sin.

Usury in Islam

Riba [usury] is forbidden in Islam. Aayaat (verses) in the Qur'aan Shareef is replete with warnings from Allah ﷻ regarding usury. In the Aayat-e-Kareema recited in the Khutbah, Allah ﷻ says,

الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَخْبَظُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَلِكَ بِأَنَّهُمْ
قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا فَمَنْ جَاءَهُ مَوْعِظَةٌ مِنْ رَبِّهِ فَانْتَهَى فَلَهُ
مَا سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ وَمَنْ عَادَ فَأُولَئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ

Those who consume Riba [usury] will not stand [on the Day of Resurrection] except like the standing of a person beaten by Shaitaan leading him to insanity. That is because they say: "Trading is only like Riba [usury]," Whereas, Allah has permitted trading and forbidden Riba [usury]. So, whosoever receives an admonition from Allah and stops consuming Riba

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[usury] shall not be punished for the past; his case is for Allah [to judge]; but whoever returns [to Riba [usury]], such are the dwellers of the Fire – they will abide therein.

[Surah Al-Baqarah: 2; Verse: 275]

Allah سُبْحَانَهُوَعَالَى continues in the Qur'aan Kareem,

إِنَّ الَّذِينَ ءَامَنُوا وَعَمِلُوا الصَّالِحَاتِ وَأَقَامُوا الصَّلَاةَ وَءَاتَوْا الزَّكَاةَ لَهُمْ أَجْرُهُمْ عِنْدَ رَبِّهِمْ وَلَا خَوْفٌ عَلَيْهِمْ وَلَا هُمْ يَحْزَنُونَ يٰٓأَيُّهَا الَّذِينَ ءَامَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنتُمْ مُّؤْمِنِينَ فَإِن لَّمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِّنَ اللَّهِ وَرَسُولِهِ وَإِن تُبْتِغُوا فَلََكُمْ رَعُوسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ إِن كَانَ ذُو عُسْرَةٍ فَنَظِرَةٌ إِلَىٰ مَيْسَرَةٍ وَأَن تَصَدَّقُوا خَيْرٌ لَّكُمْ إِن كُنتُمْ تَعْلَمُونَ

Allah will destroy Riba [usury] and will give increase for Sadaqaat [deeds of charity, alms, etc. And Allah likes not the disbelievers, sinners. Truly those who believe, and do deeds of righteousness, and perform salaah, and give Zakaat, they will have their reward with their Lord. On them shall be no fear, nor shall they grieve. O you who believe! Be afraid of Allah and give up what remains [due to you from Riba [usury]] from now onward if you are really believers. And if you do not do it, then take a notice of war from Allah and His Messenger but if you repent, you shall have your capital sums. Deal not unjustly [by asking more than your capital sums], and you shall not be dealt with unjustly [by receiving less than your capital sums. And if the debtor is in a hard time [has no money], then grant him time till it is easy for him to repay, but if you remit it by way of charity, that is better for you if you did but know.

[Surah Al-Baqarah:2; Verses: 276 to 280]

Furthermore, Allah سُبْحَانَهُوَعَالَى says in the Qur'aan,

يٰٓأَيُّهَا الَّذِينَ ءَامَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُّضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ

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O you who believe! Eat not Riba [usury] doubled and multiplied, but fear Allah that you may be successful.

[Surah Al-Imran: 3; Aayat: 130]

Moreover, Allah سُبْحَانَهُ وَتَعَالَى says in the Qur'aan,

فَبِظُلْمٍ مِّنَ الَّذِينَ هَادُوا حَرَّمْنَا عَلَيْهِمْ طَيِّبَاتٍ أُحِلَّت لَّهُمْ وَبِصَدِّهِمْ عَنِ سَبِيلِ اللَّهِ كَثِيرًا وَأَخَذَهُمُ الرِّبَا وَقَدْ نُهُوا عَنْهُ وَأَكْلِهِمْ أَمْوَالِ النَّاسِ بِالْباطِلِ وَأَعْتَدْنَا لِلْكَافِرِينَ مِنْهُمْ عَذَابًا أَلِيمًا

For the wrong-doing of the Jews, We made unlawful for them certain good foods which had been lawful for them - and for their hindering many from Allah's Way., And their taking of Riba [usury] though they were forbidden from taking it and their devouring of men's substance wrongfully [bribery, etc.]. And We have prepared for the disbelievers among them a painful torment.

[Surah An-Nisa: 4; Verse:160 to 161]

Rasoolullaah ﷺ's Last Khutbah

The attitude of Rasoolullaah ﷺ to usury is articulated in his Last Khutbah. An extract . . .

“Verily your blood, your property are as sacred and inviolable as the sacredness of this day of yours, in this month of yours, in this town of yours. Behold! Everything pertaining to the Days of Ignorance is under my feet completely abolished. Abolished are also the blood-revenges of the Days of Ignorance. The first claim of ours on blood-revenge which I abolish is that of the son of Rabi'a bin al-Harith, who was nursed among the tribe of Sa'd and killed by Hudhail. And the

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usury of the pre-Islamic period is abolished, and the first of our usury I abolish is that of 'Abba's bin 'Abd al- Muttalib, for it is all abolished.

One of the forbidden Usury Models in Islam

One type of forbidden usury in Islam is taking advantage of someone when lending money. For example, if a person borrows R 1,000.00 but is required to repay R 1,100.00, this arrangement is considered unjust. Such agreements place an unfair burden on the borrower. In Islam, lending and borrowing are meant to be acts of kindness and support, not profit-driven transactions like buying and selling, which are allowed to generate profit. Islamic scholars summarize this principle with the rule: "Any loan (qardh) that brings extra benefits is considered usury."

A Skunk by Any Other Name Stinks Just as Bad

Changing the name of something does not change its true nature. Interest remains the same no matter what it is called. For example, renaming Pretoria to Tshwane does not change the city's essence or location. GPS systems often use both names together to avoid confusion and ensure accurate navigation. The financial sector often disguises interest by labeling it as "profits" or "dividends," but this is merely a superficial change that does not alter the fundamental nature of banking. This rebranding primarily benefits non-Muslim entities financially while jeopardizing the spiritual integrity of Muslim individuals. No matter how it is renamed, the essence of interest remains unchanged.

In some circles, religious scholars or laypeople who work with financial institutions to declare Haraam (forbidden) transactions as

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Halaal (permissible) are mockingly referred to as "Goyim" by the directors and stakeholders of these institutions. This term, revealed in leaked documents, implies that such individuals are seen as mindless followers easily controlled.

Ironically, many people view this approach as modern, balanced, and wise. However, those who design these systems see their supporters as incapable of critical thinking—mere sheep following a set path. In contrast, those who faithfully follow the teachings of the Qur'aan and Hadeeth are highly regarded by Allah.

It is crucial to explore the complexities of banking further, as doing so will provide valuable insights and a better understanding for everyone.

Bhai Shaheen's Personal Experiences Regarding "Islamic Banking"

"Hadhrat had requested that I inform the gathering as well as all the other listeners out there listening on air regarding an unexpected, yet eye opening issue on what is termed Islamic Banking. This was stumbled upon during a last-minute addendum to the agenda of a work meeting I had attended. I work in the Information Technology [IT] field, and from time to time we collaborate with different companies where their clients approach us and request that they intend to embark on certain ventures that range from selling airtime to strategizing on the marketing of banking products. Our speciality is to design an IT system for them.

This is similar to an architect's structuring a building design, only our system is in the IT designing field. I made a firm decision not to say

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anything. Being the only Muslim in the meeting, once there was a meeting held at the venue of one of the banks where they were looking at introducing some new products. Though Shari'ah banking was not on the agenda, during the meeting the agenda was amended to include the introduction of Shari'ah banking. I had to be extremely quick witted, and I decided not to take a stance on the matter, as interaction in meetings of this nature is essential. One has to give one's views as well as possible solutions to hurdles that our clients are expected to experience that will relate either directly or indirectly to the product launch, and which can be dealt with at our foundation level so answers can be given to queries on the turn.

I made a firm decision not to say anything. Being the only Muslim in the meeting, I just wanted to pay close attention to the status quo and the thought processes around their perception of Shari'ah banking in the minds of non-Muslims. After all sides were heard my mind would be made up. The meeting went on this basis, after having introduced himself, the presenter said that the company intended implementing Shari'ah banking, and as the norm goes, the first question asked was, 'What is Shari'ah banking?'

The reply given by the presenter himself, who was the product owner, said that it is a banking model that they want to implement based on religion, catering mainly for the Muslim community. The next question was how could Shari'ah banking be implemented?

The answer to this was that conventional banking works with interest whereas Shari'ah banking works with profit sharing. So, what is the difference? According to them, there is really no difference between the two. His implication was deadbeat, 'a change of terminology.'

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What we call interest, they call profit share. If this is analysed from a software perspective, when software is designed, the calculations are all the same. Exactly the same. There is no difference between them. How one calculates a 5% profit share is the exactly the same as one would calculate 5% interest from a software perspective. The other thing they do, is they just create, all the Shari'ah banking accounts in a separate section of the system. For example, let us assume that they have set up and are dealing with a Shari'ah product, all they would do is just before Eid they will send you an 'Eid Mubaarak' message, your card will read 'Islamic Banking'. We are now in the month of Muharram, just before the 10th Muharram, for Ashura, they will send a message saying, 'Ashura is a day of spending, open up a banking account for your child.', and it is not their fault, it is our own fault. This is what we have degraded Ashura to. They do not understand, they do not have any level of let alone Taqwa, they have absolutely no knowledge of Islam, the Shariat or anything along the line. Also, are they interested? A vehement, no. They do not know how to implement these things.

Apart from these subtle differences, for what they are worth, there is no sign of Shari'ah banking. Now, on the flip side, on their day, they will send those clients a Christmas card. On a Jewish day, they will send them a Rosh Hashanah card or whatever it is. These are the mere trivial and subtle differences they have to satisfy their customers with.

From an investment perspective regarding how they would invest the funds. The discussion took the direction of getting a Mufti on their side. The presenter's words were that they will we get a Mufti on their side, he will collaborate with them, and it will give us the

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formula and we will implement that formula. Now ask yourselves, these people are implementing and running the product, the Mufti is From an investment perspective regarding how they would invest the funds. The discussion took the direction of getting a Mufti on their side. The presenter's words were that they will we get a Mufti on their side, he will collaborate with them, and it will give us the formula and we will implement that formula. Now ask yourselves, these people are implementing and running the product, the Mufti is not there on a day-to-day basis managing how those funds are being implemented and they can make mistakes.

I at this stage refer to an article in the Mail and Guardian published in 2012. Without having to go into details, after bank that had implemented the 'Shari'ah' model, it had dismally failed, and the whole board collapsed. The beginning sentence of that article said the two systems cannot coexist. Their entire system is based on profits which entails two aspects, first, how much more money can we make and how much cost can we cut? And they will let any cost ensure that their objective is met.

Any 'Aalim or Mufti who despite being an advisor for implementation of investment of any board in any fraternity is actually collaborating with them. Even if a Mufti actually sits on that board, he will have to comply with direction the bank takes. They will pay the Mufti a fee, but at the end of the day when the final decision is made, they will make it according to their laws.

So how can the two systems coexist in a bank? Another major aspect that was revealed in the article was that there were a lot of wrongdoings that came to be exposed at a later stage. While we place our trust in people who let alone Taqwa, they have absolutely no

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knowledge of Islam, the Shariat or anything, are actually those who say that this is a Shari'ah Compliant bank, or yours is a Shari'ah Compliant portfolio. We must think about this very carefully in terms of how we deal with our affairs these days.

'Ulama and Muftis are placed in the forefront to promote the portfolio so that Muslims develop a sense of surety that their portfolio is Shari'ah compliant, while the people who are running the portfolios in the background are non-Muslim and they can and will deviate from the original implementation that the 'Aalim or Mufti had requested to place into effect. The bottom line is, and to them, it's just a mere slight deviation from the original implementation. From this, many a grievous mistake can occur.

In another example, all the banks must subscribe to certain laws that are passed by the United Nations in terms of money laundering, and a whole lot of other criteria. 2 banks in this country have paid fines of in the region of 40 million Rand each. One bank had paid 30 million Rand already, with 15 million Rand suspended off their license because they did not follow the United Nations procedures and protocols.

The above is promulgated by law, international law, and if they can for profit, break their own laws for which there are stringent penalties, and flirt with these laws despite heavy fines being imposed on them for noncompliance, what regard would they have for Shari'ah banking, where there are neither laws, nor penalties that bind these banks? For them a Shari'ah Portfolio is no law, it is just a working understanding, it is a cake walk for them to amend this 'understanding'. We need to be incredibly careful and consider these things before we make decisions of agreeing that something is

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Shari'ah compliant, and it is acceptable. May Allah سُبْحَانَهُ وَتَعَالَى grant us the understanding and Taufeeq, [the fortune] Insha Allah.

**An Article on "Islamic Banking"
Written by a BBC Financial Journalist**

An extract is taken from a bank's own sources and not at all from any of our sources. It is an extract of how Shari'ah Compliant Islamic Banking is.

Coming to the article, the journalist is John Foster, may Allah سُبْحَانَهُ وَتَعَالَى forgive us for taking his name. Oddly, he was the former editor of the Islamic Business & Finance magazine, and the article is written under the auspices of the British Broadcasting Corporation [BBC] for who this journalist writes. The BBC is normally regarded as very authentic and genuine. Also, I felt compelled to give my views and comments after intermittently reading extracts from varied sentences, and in order not to break the flow of the article, and for the reader himself to 'chew, swallow, and digest' its contents, the article is first transcribed in its entirety without my views and comments. My views and comments are scripted after the article transcription.

The article is titled,

'How Shari'ah-Compliant is Islamic Banking?'

00:02 GMT, Friday, 11 December 2009

The question's pertinence was raised in March last year, when Sheikh Muhammad Taqi Usmani, of the Accounting and Auditing

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Organization for Islamic Finance Institutions (AAOIFI), a Bahrain-based regulatory institution that sets standards for the global industry, said that 85% of Sukuk, or Islamic bonds, were un-Islamic.

Usmani is the granddaddy of modern-day Islamic finance, so having him make this statement is synonymous with Adam Smith saying that free markets are inefficient.

Because Sukuk underpin the modern-day Islamic financial system, one of its pre-eminent proponents arguing that the epicentre of the system was flawed sent shockwaves through the industry.

It also gave ammunition to the many critics who see Islamic finance as an industry more driven by cultural identity than practical problem solving as a hodgepodge of incoherent, incomplete, impractical, and irrelevant ideas.

Recognizable Products

The products that modern-day Islamic bankers have created are terribly similar to conventional products. So similar, in fact, that to an outside observer they could be considered the same.

Islamic banks now offer Islamic mortgages, Islamic car loans, Islamic credit cards, Islamic time deposit and guaranteed return accounts, Islamic insurance and some even offer Islamic managed and hedge funds.

This point is conceded by Samir Alamad, Shari'ah, or Islamic law, compliance, and product development manager of the Islamic Bank of Britain.

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"The industry does not want to alienate its products," he says. "They have to be recognizable and produce the same outcome as conventional products but remain within the guidelines of Shari'ah.

No Interest

The core of Islamic economics is a prohibition on interest. HSBC and other Western banks offer Islamic banking. This immediately creates a problem for Islamic banks, as conventional banks charge borrowers an interest rate through which they can reward their depositors and make some profit for being the broker. With interest ruled out it is harder to make money.

The modern Islamic banker has found a way around this prohibition, however. As in many Islamic products, the bank enters into a partnership with its depositors and invests his money in a Shari'ah compliant business. The profit from this investment is then shared between the depositor and the bank after a set time.

In many cases this "profit rate" is competitive with the conventional banking system's interest rate for savers.

Lease Agreements

Alternatively, an Islamic banker might enter into a lease agreement for a car or a house with an individual. The bank would buy a vehicle outright and then lease it back to the person who wanted it, over a time period that would ensure that the capital was repaid, and the bank made a profit.

Alternatively, the bank would enter into a partnership with a person wanting to buy a house. The bank would buy 70% of the house, and

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the individual 30%. The bank then rents its share of the house back to the individual until the house is fully paid for.

The bank makes a profit on the rent, which would be higher than equivalent rents in the area, but on an annualized percentage basis, would look very much like a conventional mortgage interest rate.

To the casual observer, a spade is a spade.

Whether the product is dressed up in Arabic terminology, such as Mudharabah, or Ijarah, it looks and feels like a mortgage, it is a mortgage and to say anything else is semantics.

Sophisticated Finance

The potential wealth locked up in oil-rich Gulf states encouraged the conventional banks to enter Islamic finance.

HSBC established the halaal Islamic Finance brand in 1998 and Deutsche Bank, Citi, UBS, and Barclays quickly joined the fray, all offering interest-free products for wealthy Arabs.

However, this new generation of Islamic bankers had cut their teeth in the City and Wall Street and were used to creating sophisticated financial products.

They often bumped heads with the Shari'ah scholars who authorized their products as Shari'ah compliant.

However, these bankers had a way of dealing with this, as one investment banker based in Dubai, working for a major Western financial organization explains:

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"We create the same type of products that we do for the conventional markets. We then phone up a Shari'ah scholar for a Fatwa" [seal of approval, confirming the product is Shari'ah compliant].

If he does not give it to us, we phone up another scholar, offer him a sum of money for his services and ask him for a Fatwa. We do this until we get Shari'ah compliance. Then we are free to distribute the product as Islamic.

No Consensus

This "Fatwa shopping", which was conducted by some institutions, brings us back to the Shari'ah scholars.

Even these scholars do not agree all the time, which means that in some cases a product is deemed Shari'ah compliant in one market and not in another.

This is especially the case with Malaysian products, which are often deemed not Shari'ah complaint in the more austere Gulf.

"Often, no rulings exist for modern day problems, such as use of narcotics," Alamad explains. "In Islam intoxication by wine is forbidden, but at the time of the Prophet Mohammed there was no crack cocaine."

Modern scholars had to interpret the rules on intoxication, and the consensus was that crack should also be forbidden to Muslims, as it is a dangerous intoxicant.

"This is how we make rulings, whether in finance or societal," Alamad says. "The consensus rules, which usually will become

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mandatory for all Muslims to follow, but there are some opinions and sometimes scholars are not in the consensus.

Banking is Banking

This makes it more important to be in the consensus, and so getting a favourable ruling from a leading Shari'ah scholar is important for a product manager.

That is why the top scholars can earn so much money - often six-figure sums for each ruling they give.

The most creative scholars are the ones in the most demand, says Tarek El Diwany, analyst at London-based Islamic financial consultancy Zest Advisory.

To date, most Islamic financiers have been looking at examples of financing in Islamic history and figuring out how to apply them to today's financial products. But banking is banking.

It is the taking of a deposit and then using it to finance a purchase or business. The lender pays the depositor compensation for the opportunity cost of his money, and the person borrowing the money "rents" it off the bank.

The same symbiotic relationship occurs whether it is conventional banking, ethical banking, Islamic banking, or Presbyterian banking.

As Majid Dawood, chief executive of Yasaar, a UK-based Islamic finance consultancy says: "Everything that is not forbidden in the Holy Qur'aan is OK.

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"Yes, the industry has to evolve, but it is only 40 years old and its competing with a conventional finance system that is over 800 years old."

Views and Comments

Extract from the article: "... it looks and feels like a mortgage, it is a mortgage and to say anything else is semantics."

Comment: It is a mortgage, and it is nothing short of a mortgage. This is what they are saying, not what we are analysing

Extract from the article: "The potential wealth locked up in oil-rich Gulf states encouraged the conventional banks to enter Islamic finance."

Comment: This is just to take out their money for them. That is the whole object.

Extract from the article: "HSBC established the halaal Islamic Finance brand in 1998 and Deutsche Bank, Citi, UBS and Barclays quickly joined the fray, all offering interest-free products for wealthy Arabs."

Comment: 1998, That was about twenty-four or twenty-five years ago. They claim it is interest free, but it is all interest based by just changing the name, so according to them there is no interest.

Extract from the article: "They often bumped heads with the Shari'ah scholars who authorized their products as Shari'ah compliant."

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Comment: There were those who did not agree with it. Here, in our country, Mufti Ibraheem Desai Saheb Marhoom withdrew completely. He said the systems cannot co-exist, there is nothing like that.

Extract from the article: "We create the same type of products that we do for the conventional markets. We then phone up a Shari'ah scholar for a Fatwa [seal of approval, confirming the product is Shari'ah compliant]."

Comment: They phone a Mufti, and if he does not agree, they call another scholar, another Mufti.

Extract from the article: If he doesn't give it to us, we phone up another scholar, offer him a sum of money for his services and ask him for a Fatwa. We do this until we get Shari'ah compliance."

Comment: This means that it is not Shari'ah compliant, but they just say that it is Shari'ah compliant, and he just has to approve it by signing the document

Extract from the article: "Then we are free to distribute the product as Islamic."

Comment: But it is not Islamic, it is just a name change.

Extract from the article: "This "Fatwa shopping", which was carried out by some institutions, brings us back to the Shari'ah scholars."

Comment: They, themselves are admitting that they are doing 'Fatwa Shopping'. All they want is a fatwa that suits them, and they

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pay for it. What they pay is a small amount, as Bhai Shaheen had explained.

These banks pay fines of R30 million and R40 million, but it is nothing to them for what they get in return.

Extract from the article: "This makes it more important to be in the consensus, and so getting a favourable ruling from a leading Shari'ah scholar is important for a product manager."

Comment: Acquiring a famous Mufti who everyone accepts just to sign above the bottom line is a great achievement for them.

Extract from the article: "That is why the top scholars can earn so much money - often six-figure sums for each ruling they give."

Comment: It is all about money, money, money.

Extract from the article: "The lender pays the depositor compensation for the opportunity cost of his money, and the person borrowing the money "rents" it off the bank."

Comment: That's the work of banks, they take significant amounts from a vast number of people and give it to other people, and that is all there is to it. The only aspect that changes is that they are given Islamic names, while we get, overtaken that all banks now offer Islamic banking, and we get impressed by the Islamic terms they use.

Extract from the article: "The same symbiotic relationship occurs whether it is conventional banking, ethical banking, Islamic banking or Presbyterian banking."

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Comment: That means that they worked out a product for the church as well. It is one banking system for all, and all they do is amend the religious terminology to suit the type of banking the customer opts for.

May Allah grant us Taufeeq [the fortune], make us understand and save us from all gunahs, and where we are involved, remember very clearly the words of Hadhrat Moulana Ashraf 'Ali Thanwi رَحْمَةُ اللَّهِ، "Accept it as a gunah, don't attempt to make it halaal."

Narratives From Two Financiers

I have extracted two interviews from podcasts. In each interview, the interviewer is the same, while the interviewees were regarded as top world leading Islamic financiers. They are financiers and not Muftis or 'Aalims. The interviewees responses come across as being poles apart where one interviewee, openly exposes that the use of all Commercial Banks was haraam, while the second interviewee argues his way on the forced "halaalization" of his products. I leave it to the reader to work out the names of these interviewees by means of their responses.

The Haaris Irfaan Narrative

Britisher Ibrahim Khan is a founder member of Curl 8 Capital. Haaris Irfaan is founder of the corporate finance advisory boutique of Cordoba Capital.

Curl8 Capital is a trading name of IFG.VC Limited, which is a subsidiary of Islamic Finance Guru Limited. IFG - VC Limited is

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authorised and regulated by the FCA [a British Financial watchdog institute].

In a podcast interview, although the discussion was with regard to Islamic Finance, and the problems faced with Muslims regarding Islamic Finance, there were lots of aspects that were aired that exposed the 'dirty linen' – for lack of a better phrase regarding 'Islamic Finance.'

It also brought out many aspects regarding finance in Islam, which although had sat at the back of my mind, they had been rejuvenated. It was a thoroughly interesting interview, and reading the transcript will be beneficial for all Muslims.

This podcast was aired in September 2023, less than a year ago. Due to adhering to brevity, and some off the topic discussions, only the necessary parts of the interview were extracted for transcription. The following is the extract of the podcast:

Ibrahim Khan: My guest today is an Islamic finance industry insider. Haaris Irfaan is currently the CEO of Cordoba Capital Markets. He has 29 years of investment banking and consulting experience. He was the former co-founder of Deutsche Bank's world leading Islamic finance team and CEO of Deutsche's Islamic finance subsidiary.

He is the former global head of Islamic finance at Barclays, then head of investment banking for the Rasmuller Group. He's also the author of Heaven's Bankers. Inside the hidden world of Islamic finance, a critically acclaimed bestseller about the Islamic finance industry.

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Haaris Irfaan, As Salaamu 'Alaikum wa Rahmatullaahi wa Barakaatuhu, and welcome to 'The Thinking Muslim.'

Haaris Irfaan: Wa 'Alaykum Salam wa Rahmatullah. Thank you for having me. Well, it's great to have you with us.

Ibrahim Khan: Now, Haaris, I don't know if this is an exaggeration, but you're the man behind the Makkah Clock Tower. Why have you come to regret your part in financing the tower? Take me through your journey.

Haaris Irfaan: Well, that's a heck of an opening line, and I, the first thing I would say is that I'm not the man responsible for the Makkah Clock Tower. Unfortunately, I do have a part to play in the project that was responsible for detonating the hills around Makkah into a billion pebbles and historic old forts and buildings and a lot of our history and in its place constructing what frankly is a monstrosity.

That dwarfs the reason for being there, which is to visit the Ka'bah. So, let me take a step back. I was, the first, individual placed by Deutsche Bank on the ground in Dubai, so I was sent on an expat assignment from the London office back in 2001. And the day I arrived, so rather two days after I arrived, 9/11 happened. So, there I am, you know, sitting in a, a service department trying to get my things together, just having arrived in the country. And I got a call from my wife. We watched these events unfold and of course what then followed was a huge repatriation of money back from the Western world to the Gulf and therefore real estate stocks and other assets took off in price.

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So, naturally, there was a lot of building work going on Deutsche Bank had just arrived in the region We were the first investment bank to set up in the Dubai International Financial Centre. We, were asked by a lot of clients who came to us and said, well, it's lovely that you're here, Deutsche Bank, but can you do these deals that we want to do on a Shariah compliant basis?

Being investment bankers, we know how to blag our way through anything, and we said, "Yeah, sure." But the reality was, of course, that nobody had ever done that kind of thing before. So, we actually learned at the feet of the major scholars, Sheikh Hussein Hamid Hassan¹, who is considered by many to be the grandfather of modern Islamic finance. He the, the architect of our, Shariah financial program, and one of the first deals we were asked to do was we were the first Western investment bank to be invited into the holy city of Makkah to do a real estate Sukuk. Sukuk is a type of Islamic bond or capital markets instrument. So, a debt instrument that's listed on an exchange. Nobody had been asked this before, and this is a pretty sophisticated piece of, of financial engineering. So, of course it was very exciting for us, and I was probably caught up as a junior banker in that excitement that here we are, we're going to finance the construction of a tower facing the Ka'bah.

¹ Dr. Hassan earned his PhD from the Faculty of Shari'ah at al-Azhar University in Cairo in 1965 and was awarded a Bachelor of Law and Islamic Sharia from Cairo University and Al-Azhar University, President of the International Islamic University, Islamabad, advisor of Islamic education affairs and Shariah implementation, Islamabad. He is an expert advisor for the Fiqh Academy of the Organization of Islamic Conferences and on the board of numerous financial organizations. He is also the chairman of a number of Shari'ah boards in several Islamic financial institutions in the Middle East and has helped several traditional banks convert into Islamic banks, including the transformation of the Dubai Financial Market into the first Islamic Financial Market in the world.

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It had been sold to us as this is, this is an amazing, development, people will be within, a hundred yards and maybe 50 yards of the mosque, and it'll be a cutting-edge building and, it'll be iconic, et cetera, et cetera. Of course, we never step back to think about socially, what does this mean?

I think when you are caught up in the era of financialization, which is what's happening right now, the financial economy is much more powerful and much more influential than the real economy. The real economy is real goods and services. It's your barber on the high street. It's a factory that makes widgets. It's real goods and services, apart from financial services that are being sold in the market.

The financial economy is supposed to be those services that serve the real economy and lubricate the cogs of the real economy. But it's become an industry in and of itself. It serves itself. It serves the people who run it.

It serves the central bankers, which is something that I want to talk about today. So, when you're caught up in that, you often don't see the long-term implications of what it is you're doing, as a financial transaction, there we were very excited, creating this complex financial instrument listed on an exchange somewhere that would finance . . . it was actually the Saffa Tower, which is one of the seven towers of the Abraaj Albayt.

I was one of the structures, which is basically a sort of financial engineer who creates the financial instrument that funds this development and all the while not realizing in my excitement that actually I'm participating in the destruction of my own heritage and it's something that I look back on with great regret. I think that it's

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something that would have happened inevitably whether I was there or not, but it's also something that I think should serve as a warning for Muslims generally and for people generally that this is the effect of financialization.

This is the effect of what I call high time preference and that's something again, that I want to talk about a bit later.

Ibrahim Khan: So, your basic argument is, or your basic point about your days with Deutsche Bank is that you didn't consider the social impact, the historical impact, the Islamic moral impact of your decisions. Is that a, is that a fair summary of your . . . so you work for Deutsche Bank, and you argue that big investment banks abuse a concept of Islamic finance. I mean, how do they do this?

Haaris Irfaan: Well, I guess it pays to have a little bit of a history lesson here. I would say that this was probably the first instance of the modern Islamic finance era is an experiment called the Mit Ghamr Experiment.

Mit Ghamr is a town about 80 miles from Cairo, and an economist created an effectively a social bank, a social savings and investment institution. Depositors would put their money with the bank. That money would be used to fund local industry directly. The profits would be shared with depositors, right.

So, this is a, a very pure form of Madaarabah, which is a no riba, no riba involved, no interest involved. This is a split of profits, and that's a real risk sharing, real economy transaction, which is very Islamic, and that morphed eventually into a sort of social bank, social savings

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institution. Now, I think there were eight other similar institutions in Egypt at the time.

From there, this was sort of proof of concept, and from there, in 1975, the first major Islamic bank was formed in Dubai, called Dubai Islamic Bank. At the same time, the Islamic Development Bank, which is a multilateral institution, was formed, and now you see the development of commercial, Islamic banking.

And at that point, you need to be regulated as a bank by the relevant authorities and if you are to be regulated as a bank, then you must be a fractional reserve institution. What does that mean? Well, it means that for every pound or dollar you deposit in the bank, they have the right to lend out more than is deposited in the bank.

That's the fraction, the fractional reserve. So, for example, they may lend out \$10 for every \$1 that's deposited. In other words, they've created nine new dollars from nothing really, it's a form of alchemy. It's money from nothing. If you were to ask a sensible person who not knew nothing about it was not formally trained in economics, "What do you think of this?"

They might reasonably conclude it's a form of fraud and yet, this is perfectly lawful.

Ibrahim Khan: Do all banks do this:

Haaris Irfaan: All banks do this.

Ibrahim Khan: British banks American banks . . .

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Haaris Irfaan: Every bank in the world that is regulated by a central bank is a fractional reserve institution.

Ibrahim Khan: Right, let me explore this fractional reserve idea because when I first heard of it, it wasn't very long ago, it just blew my mind, right?

Ok, so if I go to an Islamic finance institute and I say I want to buy a house. Presumably they will lend me money from deposits, so someone has excess surplus wealth and they want to, keep that wealth safe and they put it into that Islamic bank, HSBC, Oman, or whatever it may be. You're saying to me that it's not only the money, but the deposits also that pay for my mortgage, there's, other money involved in that, and this money is what, just comes out of nowhere?

Haaris Irfaan: It is, you could, you could literally say that. It is, created at the stroke of a keyboard click.

Ibrahim Khan: But why? What, why does this exist? Let's go back to gold in the 16th century and you wanted to store it safely. You would go to your local goldsmith, and you'd say, "Can you put this in your vault and give me a piece of paper, a receipt that shows that I have put some gold with you?"

And he gives it to you. You put it - let's say you weigh five pounds worth of gold - and you put it in the vault. He gives you a piece of paper that says, "I owe you five pounds of gold." Right? All well and good. Now you know that this is evidence that you own this, and it so happens that the goldsmith has a good standing in the community. Everybody respects him, they know he's an upstanding guy, he's a safe guy and he's good for his word. So, you can actually circulate this piece of paper in the economy as money. Because it

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evidences that you actually own five pounds of gold, or you can have it divisible. He can give you five pieces that say, "I owe you one pound."

Now, again, this is all very good, but at some point, the goldsmith says, wait a minute, this guy whose deposited money with me never comes back to redeem his gold. So, I could actually issue more pieces of paper than I actually have deposits. Now, he's created a fractional reserve. So, the practice became that he would issue more receipts into the economy, and it was, it was made legal, and eventually we saw institutions like Bank of England, which effectively codified this and institutionalized this process. So, it was possible for a bank to maintain a reserve, but to issue more money that was actually stored in its vaults, and this is the origins of the fractional reserve system.

Now, as long as the government found some way to regulate the amount of money that's in circulation, everybody believes this is all well and good. An increase of money supply in the economy means more. Credit creation means more, wealth creation means more, jobs mean more, growth in the economy. We now have a situation where the controls are so loose that this financial economy has far outstripped the real economy.

And every now and then there's a crash. Every now and then things get too impossible to control. We have crashes like the 2007-2008 crisis. And in such a case, you will see lines of people outside banks saying, "No, no, something's gone wrong. I want my money back." In fact, we saw it very recently with Silicon Valley Bank, except the crash happened much faster this time because it was no longer about neighbours in the street saying to each other saying, "Hey, have you heard about our local bank and what's happening?"

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We better run to the bank or catch the bus or whatever and get there and stand in a queue and redeem our money. Now you get on your mobile phone app, and you just say, "I'll have my money back. Thank you very much." Because I heard a rumour on Reddit. That it was about to crash. Right. So, now we have, runs on a bank that can happen instantaneously, and this is a function of the fractional reserve system.

Ibrahim Khan: So, this fractional reserve banking underpins all Islamic banking? All banks, including Islamic.

Haaris Irfaan: Right.

Ibrahim Khan: So, what does that then mean for the Islamic quality of these products? Like, what are you, what's, what's your argument about the Islamic quality of, say an halaal Finance mortgage?

Haaris Irfaan: There was a time that I felt, and this is going back 20 years when I started the Islamic finance team at Deutsche Bank, that I felt that if you're a practicing Muslim and you're ideologically aligned with your faith and you wanted to invest in a way that didn't compromise your principles and you wanted to offer financial products to other Muslims and to people who wanted to invest and participate in the economy in a halaal way, in an ethical way, whether or not they were Muslim.

I used to think it was possible to do that. And we actually had a bunch of bankers who were working at places like Deutsche Bank, who were young, practicing Muslims, technically capable, ideologically aligned, and they were creating some very interesting product. But we never really stepped back to think, actually, what is

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the fundamental basis on which we are manufacturing these products? Because it's all very well that we've mastered the elements of Fiqhul Mu'aamalaat, the jurisprudence of transactions, of commercial and financial transactions. So that we can create these complex contractual structures that we call Mudaarabah, Mushaaraka, Muraabaha and so on. We had these contracts that we vetted by theologians for compliance with Shariah.

And we say, yeah, this contract I'm using to finance the building of a house or financing the purchase of a home through a mortgage is Shariah compliant because the contracts are an Ijaarah with a diminishing Mushaaraka or some other combination. But we don't step back and think, "Hang on. What's the basis on which this bank is able to give money for the financing of this house?"

The basis is money creation through the fractional reserve system. So again, every time you deposit a dollar in the bank, and they can lend \$10, they've created nine new dollars of new money, which is the definition of *riba*. Because you've created money from nothing or money out of money. That's an excess, that's a surplus, that's how *riba* is defined.

So, the entire banking system is, by definition, based on *riba*. And if you have Shariah compliant contractual structures on top of that foundation, you still have a noncompliant system. So as much as I tried to convince myself for many, many years, and this is a form of cognitive dissonance, that we can do this, we can do it better, and we can make it halaal.

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Actually, Islamic banking is an oxymoron. Because you cannot be Islamic and be a bank. Because a bank is a fractional reserve institution that creates money from nothing, which is *riba*.

Ibrahim Khan: I mean, that's outstanding. I mean, so, a person who today wants to purchase a house, a Muslim living in Britain who wants to purchase a house, are you saying that they should regard all Islamic banks, Islamic finance instruments in the same way as a traditional high street bank, as a *riba* based bank and so, these banks and these instruments are *haraam*.?

Haaris Irfaan: Well, here again, I demonstrate some cognitive dissonance and it's very difficult for me to say that is the case. First of all, is there a viable alternative? Today I don't believe that there is. Secondly, are there many Muslims working in the Islamic finance industry who are trying to develop a more wholesome product? Not just *halaal*, but *Tayyib*. Not just permissible, but wholesome. And the answer is yes, there are many Muslims in that industry. And I also believe in supporting them to achieve those objectives.

Ibrahim Khan: So, these Muslims are creating the equivalent financial products without the fractional reserve under the hood?

Haaris Irfaan: No, they are, they're within the banks. They still have fractional reserve under the hood. But there are many Muslims now who are creating new startup Islamic fintech firms². Who are trying to create financial investment products and financial, financing

² The term "fintech company" describes any business that uses technology to modify, enhance, or automate financial services for businesses or consumers.

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products, which are not just contractually, to the letter of the law, but also within the spirit of the law, i.e. not based on a fractional reserve system. But that's a very, very, very tiny minority. So, I would say that we should, as Muslims, support the Islamic finance industry, but we should be very discerning about what we choose to support and choose to walk away from. Now, having said that, if I want to finance my house, I have very few alternatives.

And even I have used an Islamic bank to get a mortgage. Because I felt that the alternative would be to go to a large high street bank, who have no interest in or affinity in, affinity with Muslims or the halaal economy. So, I would rather support those who do have an interest in that and are trying to move in the right direction.

Unfortunately, again, it's cognitive dissonance. Unfortunately, I don't really feel, I'm in my mind, I'm constantly trying to reconcile my actions with the reality of what's actually happening. And I used to champion the Islamic finance industry, particularly Islamic banking industry for a long time, for many years until very, very recently.

But I now feel that it's, it's so stagnant, it's so unwilling to change from the inside. And I've tried to change it from the inside. That I can no longer hand on heart say that I can continue to support the Islamic banking industry. And I would like the Islamic finance industry more widely to move towards its ideals of a risk sharing, real economy based, services industry.

Now we're a long, long way from that. And I think a lot of what young entrepreneurs are doing now to create fintech companies, Islamic fintech companies, is a good step, towards that ultimate aim. But I think we're a long way from there.

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Ibrahim Khan: And from a regulatory perspective, are they allowed to do that? Can you set up Islamic, purely Islamic financial instruments? But are not based on this fractional reserve banking.

Haaris Irfaan: Yes, you can do that. It would be effectively 100 percent reserve institutions. Every pound that gets deposited, a pound is invested somewhere else. And it's not lent somewhere else, at interest, it is actually invested somewhere else. And actually, that's a key point because unfortunately, I see very, very few Islamic fintech firms who act as financing firms who do finance businesses on a risk sharing basis.

Many of them use a form of contractual structure called commodity Muraabaha. And it doesn't really matter what that means but let me give you an analogy.

In the Middle Ages. of course, the church banned usury, usury was forbidden in Christianity, always has been. And the way that financiers would circumvent that in the Middle Ages was to say, well, what if I took this contract and this contract and this contract, three different contracts, each with different aims, say this called contractum trinius.

And each of them was not alone with interests, but when I put them together, they effectively allow me to lend and get interest in return. Now the church at the time said, well, these contracts are not in and of themselves non-compliant with church law. So, no problem, you carry on. Which is exactly what's happening.

And, and hence we now see the development of the modern financial services industry, and even the church itself has turned a blind eye to

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interest by, I think 1917, The Vatican themselves were investing in interest bearing bonds on their balance sheet. So that creeping normalization of usury has meant that original church law has been completely disregarded.

And I fear that's what the Islamic finance industry has been doing for the last 60 years since the Mit Ghamr experiment in Egypt.

Ibrahim Khan: So, you mentioned a couple of times about risk sharing. What is that? Sorry, explain that.

Haaris Irfaan: Okay. So, if you're a business . . .

Ibrahim Khan: And you wanna raise money, let's say working capital.

Haaris Irfaan: I'll give you a specific example actually. I've just closed a transaction with an international agri-business, and it so happened that the CFO of this business was a Muslim. Although the business is certified as halaal in any way, although the product that they sell, which happens to be Brazil nuts is halaal.

And he said, look, this company, I don't want to put debt on his balance sheet. I don't want to burden it with security and collateral and a burden for its future running, nor do I want to dilute the equity of this business and bring in new shareholders. So how do I raise working capital for this business, so I can buy raw material, process them in my factories and sell them in the market? And together we worked on a form of instrument that we call a profit participating note. So, in format, it's a little bit like a bond because it gets listed on an exchange. But in practice, what happens is the investors who put

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money into this bond are actually participating in the financing of the business.

So that money is directly used to purchase a raw material, which happens to be raw Brazil nuts, in a factory in South America. It's processed in that factory. It's packaged and shipped, and the profits are then sold, are then shared between the investor and the company. That's a pure risk sharing structure.

The investor is now participating in the activities of that company. They're not guaranteed a return, they're not guaranteed an interest rate, but it so happens they're doing pretty well. They're earning low double-digit returns, that's their yield. So, this is a perfect example of a real economy, risk sharing financial instruments.

Ibrahim Khan: So, they could lose all of that money if the company does that.

Haaris Irfaan: In theory they could, but I think the beauty of doing financing in this way is that as a financier, you take much more care in doing due diligence on the activities of the company. You live and breathe what they do. I mean, the CFO and I have been talking constantly every day for the past year and a half, I think. And that's not what bankers would do. Bankers don't care what happens next. Because if it goes wrong, they'll repossess everything you own and take the shirt off your back. Whereas I, as a financier do care what the business does. So, I am much more heavily aligned with the business. I'm incentivized to make sure that they do well.

If they do well, I do well, my investors do well, the economy does well. This is a much more wholesome and ethical way to run an

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economy. Today because of financialization. I mean, financialization has, has led to the monster of inflation because we have this cheap debt borrow, spend, consume model. And what we, what we call QE, [quantitative easing] is very colloquially, I'll call it money printing. It's not actually money printing. It's a press of a button where a central bank increases the bank reserves in their accounts. Banks now have more money to spend on, or they can lend it long term interest rates decrease over time as a result of QE in and consumers.

And now it's incentivized to borrow, spend, consume. And so, we buy stupid things that we don't need. We change our mobile phones, the Apple 23 for the Apple 24 or whatever it is, that we don't need to change every year, but we do. We change the car and our driveway every year with a new PCP agreement. You know, we refurb our homes because we can, we can extract equity from our homes at low interest rates.

So, this is a form of financial insanity. We're decertifying our planet. We're polluting our planet. We don't discipline our Nafs, we don't, we don't practice Sabr, we don't practice deferred gratification, we don't invest for our future, we just borrow, spend, consume. That's what we do today, we have high time preference.

So, as a result, we are, in this cycle, whereby we, we borrow as much as we can, and bankers don't care who they lend to anymore, they don't do the due diligence on how they lend. And venture capitalists, when they invest in a business, because inflation is so high. Money sitting in a bank account is just devaluing at 10 percent per annum. So, throw it away. Throw it into businesses that don't make any sense. You hear the word blockchain, metaverse, that's the new

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buzzword. Let's invest in that. Throw money at it. It doesn't matter what it does. It's the new whatever. So, I think we are in a financial economy that encourages poor financial decision making.

I think if we returned to a real economy risk sharing basis on which to finance businesses, we would have a much more measured and calculated process whereby the financier is fully aligned with the finance, the one who is receiving the money. It's not a borrower lender relationship anymore. It's a partnership arrangement.

In fact, Mushaaraka is a form of financial contract in Islamic finance, which means partnership. Mudhaaraba is also a final, type of arrangement. And Rasoolullaah ﷺ himself was a Mudhaarib. Because he took in capital from people who had capital, the Rabb al Maal, [the Lord of the Debt]. And he was the Mudhaarib, the manager of the money.

And he ﷺ would invest it into caravans and manage that capital and then split the profits with the Rabb al Maal, with the owner of the capital, in a real economy, risk sharing way.

So, I'm a firm believer that if Islamic finance is to be successful and true to its roots, it has to reflect that same risk sharing, Mudhaaraba model, whereby I, as the manager of money, am a true Mudhaarib. And I have an Amaanah, there's a trust on me, to make sure that the business is successful. Not that I walk away and say, I want security and collateral, and I want, and this is, this is what happened in, in, in the Middle Ages, debt peonage.

Eventually, I would take collateral in the form of human beings. Slavery becomes a way of life. So, this is a move away from that.

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A lot of investment products and financing products are being touted as halaal, but still have this commodity Murabaha. Remember that discussion we had about contracting trinius, the modern version. They still have this contract, sorry, commodity Muraabaha sometimes called Tawarruq. If you see those words in the small print, run a mile. Because as far as I'm concerned, that's a form of deception. We're trying to fool Allah into believing that this fancy contractual structuring on pieces of paper somehow makes this financial instrument halaal. And I'm very disturbed to note that a lot of new Islamic fintech companies are jumping on this bandwagon of let's create a new Islamic fintech company and capture this new market because people are moving away from Islamic banks and traditional banking and what they're doing is trying to replicate what the banks already do, which is either fractional reserve or using contractual structures like commodity Muraabaha.

Once again, remember those words. If you see that in the small print, as far as I'm concerned, that's a deception.

Ibrahim Khan: Haaris, there are many scholars, Islamic scholars of high repute, who endorse these products. And some of them sit on the boards of these Islamic finance companies. Are you in effect saying that these Islamic scholars have all got it wrong?

Haaris Irfaan: I'm not saying that because, well, the vast majority of scholars in this industry that I've met and I know are, first of all, highly competent individuals and secondly, individuals with a high degree of integrity.

So, I'd certainly wouldn't say that. What I would say is that they are captive to the system, much like economists are. And perhaps in

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some cases they can't really see beyond that narrow focus that they have and in order to stay employed. They appear to have little choice, but to endorse the products that currently exist.

The second thing I would say about that is, in many cases, they have put provisors on these products, which are often ignored. So, for example, in the case of Commodity Muraamaha, which is often described as Tawarruq by many banks. It's not important what the specifics are of the, of the transactions involved in it, but basically, it's a case of smoke and mirrors.

So, you will have, for example, a lot of metal being traded on metals exchange between different parties. And what the scholars say, particularly if you look at the standards published by an industry body called A O F I, they say, as long as it is not 'organized Tawarruq', meaning that the buyers and sellers of these metals on an exchange have not been fixed and organized in advance, predetermined in advance, it's a halaal transaction. And that is actually true. I agree with that. Despite my reservations on commodity Muraabaha. Actually, that is a correct assessment in my opinion. The problem is that all the banks practice organized Tawarruq. So, they have a fatwa for one thing, then they practice something else. And that is my problem with that.

Ibrahim Khan: So why don't these scholars discuss that and, you know, object to their name being used? Besides these products that are problematic.

Haaris Irfaan: It has happened. There's a very famous case. In 2011, I was approached by Goldman Sachs to help them launch a Sukuk, an Islamic bond. And it would have been a large transaction, I think one or two billion dollars or so. And they said, I said, well, that's

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interesting. I'm, willing to act as a consultant on this project. I was in a consulting role at the time, and I said, okay, first of all, what form of structure are we going to use here? The contractual structure. And they said, commodity Muraabaha. I said that's problematic. Let's go down a different route. They said, "No, no, no, no, we have to go down this route because we've already got preapproval which was internal." I said, "Okay, but there are many provisors if you use this and that's the only basis, I can work on this.

And I said, first of all, what's the money going to be used for? They said, and these literally are their words, "Don't ask too many questions." I said, "Whoa. I'm out of here." I cannot work on something where you don't even want investors to know how the money is going to be used.

That's an absolute, um, you know, red flag for Muslim investors, for halaal investors. So, they went ahead and tried to use this structure, and they tried to launch it and predictably it was a failure. It's the only time there's been a benchmark size, meaning sort of billion-dollar size Sukuk in the international markets that has failed. Goldman Sachs failed to launch. And many of the scholars who involved in them had their names attached to the offering document to investors said, "Well, I didn't say that." I spoke to them in private. I spoke to a number of them in privacy. "No, no, I didn't say that. And I didn't sign up to this document. And I said in our meetings with these bankers, no, this can only work if you do X, Y and Z. And they didn't follow X, Y, and Z."

So, what we see, in public is not what necessarily happens in private. And there are many instances, I've had many conversations with scholars, who feel that their views were not adequately reflected in

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the final product. So, when I used to work with Sheikh Hossein Hamid Hassan, he used to use the analogy of, I'm a doctor, he would say., "And if the patient comes to me with an illness, if I don't have a full reading of his history and symptoms, I cannot give a solution, right?" You have to divulge all the information on this transaction to me before I can opine on it and work with you as the architect. And that's a principle that we followed with Sheikh Hussain, and it's why I believe we were successful, successful at the time.

Now other things happened after that, which we can talk about later, which led to a spoiling of the market. But in general, I feel that it's important that when bankers and financiers work with scholars that they work with them from day one, not at the 11th hour and suddenly go out to them and say, "Hey, wave a magic wand over this transaction and call it Shariah compliant." That's not going to happen, or they don't have them intimately involved in every detail of the financial transaction.

Ibrahim Khan: That's interesting. I mean, how much can we blame scholars? I mean, I've often come across very good scholars who understand the reality. As we know, one of the requirements of issuing a fatwa or making Ijtihad is Tahqeeq Al Manaad, understanding the reality.

And I know some scholars who really go out of their way to understand the reality in great depth. But then there are other scholars who just don't appreciate the reality or rely on third parties to explain the reality to them. Because, of course, the quality of their Islamic verdict is going to be dependent on how well they understand, in your case, fractional reserve banking and, and what

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comes under the hood of these Islamic finance products. I mean, have you come across scholars who investigate on their own, who really try to inquire about the details of a product? Because often. There is a blame on some scholars for not doing that.

Haaris Irfaan: Yes, I have. First of all, most of the scholars that I've worked with would generally be considered to be highly competent and understand the detailed mechanics of financial, modern financial instruments.

They tend to have a view on certain things, such as the role of commodity Muraabaha, particularly in developing the financial services industry in the 1980s, when it is modern financial instruments started to come through. And they said at the time, we will allow this structure to be used for an interim period so that you have a foothold so that Islamic finance develops. Unfortunately, that just became the default for the next 40 years. So that's a shame.

Ibrahim Khan: So, tell me about the doomsday fatwa.

Haaris Irfaan: Yeah. So, shortly after the Makkah towers project, when Deutsche Bank had established a foothold in the Middle East, we created the atomic bomb of the industry, hence why I call it the Manhattan project.

Yeah. And this was a particular technique that my team at Deutsche Bank created to replicate the financial return from any financial instrument whatsoever. So, think of the most haraam thing that you can think of. Pork belly futures, right? We could replicate the return through what's called a total return swap of pork belly futures.

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And give that as an apparently halaal return to an Islamic investor through what's called an orphanized vehicle. It's a way of distancing the investor from the underlying asset far, far away from them. In the middle, you've got this black box that swaps away the return of the haraam instrument and gives them the return of something else that they legally own.

So, the black box contains a perfectly halaal asset. It might be metals on an exchange copper on the London metal exchange, right? That's what they own legally. And yet the investment bank Deutsche Bank swaps away the return in this black box and gives them the return of something else which is specified on our terms and conditions sheet. So, we were able to create all kinds of exotic investment products what we call structured investment products And these are typically the kind of things that high-net-worth individuals with Swiss bank accounts would invest in all kinds of very highly complex derivative instruments.

Now, one of the reasons why we created this, remember going back 20 years, the Deutsche Bank team was young, dynamic Muslims, practicing Muslims, who wanted to do the right thing. One of the reasons why we created this technology, this atomic bomb, was to harness the power of atomic energy, which can be used for good things and bad things.

And so, we wanted to actually create a hedging platform. What do I mean by hedging? Well, if you're a business that manufactures a product and sells in different markets around the world and all of your costs are in Euros, but all your revenues are in Dollars; you have an exchange rate risk. Right? So, you need to hedge that foreign exchange risk.

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You need to make sure that you are not haemorrhaging money when your currency plummets in value and your costs become much higher than your revenues. That's a legitimate reason to hedge your, hedge your business risks. So, we created this platform in order to create a hedging instrument and a treasury management platform.

So, people can hedge against macro-economic risks like, commodity prices or you know, foreign exchange rates. That's a good purpose. Unfortunately, the generic fatwa that we had issued off the back of this black box technology could be used to create all kinds of crazy products because we could replicate the return of anything through a total return swap.

So, there we are, our sales guys are running amok like Rambo's firing guns everywhere throughout the Middle East selling exotic, interest rate derivative products. And, you know, not literally pork belly futures, but that kind of thing. And it all came to a head when there was a press conference given by my then boss, who sat alongside, I think it was some Goldman Sachs hedge fund type guy.

And, it was for, I think, a hedge fund managed by Goldman Sachs. And, this black box was issuing a Shariah compliant structured note, which replicated the return of that hedge fund. And my boss made a very interesting comment to the press at the time. He said, "We", meaning Deutsche Bank, "Will create conservative products for conservative customers and aggressive products for aggressive customers." Which is the worst thing you can say when all the Muslim world is watching this, saying, "Yeah, we can create alcohol that's kind of, you know, not alcohol and kind of is alcohol and we can make it halaal."

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Guys, please, this is the wrong thing. That's what happens when you have Islamic finance that run, that's run by non-Muslims.

They don't understand, they never lived that experience, never sat an hour. You know, they never walked in our shoes, and they don't realize that's the kind of comment that can get you into a lot of trouble. And that did cause a lot of trouble. And a scholar at the time, called Sheik Yusuf de Lorenzo, heavily criticized in public in an open letter to Sheik Hossein Hamid Hassan, who was, as I say, the godfather of the modern Islamic finance industry and the architect of our product.

And he said that you are making a huge mistake here. You have created the doomsday fatwa, which kind of ties in with the whole Manhattan project image. And you know, this will wreak havoc in the Islamic finance industry.

And he was right. I mean, all sorts of devious product were created off the back of this technique.

And Sheikh Hussain quite rightly, I mean, initially there was quite a spat between the scholars, as you can imagine, but eventually, they dealt with it in a very scholarly way. And Sheikh Hussain made sure that subsequently any product that was issued off the back of this platform had to go through him.

Even the marketing, even the wording of any adverts that were used to describe a product, he had to see it and he had to vet it. And from now on, it could only be used to reflect underlying which were not repugnant to Shariah.

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Ibrahim Khan: Earlier on when you talked about the clock tower, you said that it contravened, it may have followed the letter of the law, at least the, the transactions may have followed the letter of the law, but it contravened. Some of the goals of the Shariah, some of the aims of the Shariah. Can you expand on that? What, what do you mean by the aims of the Shariah?

Haaris Irfaan: I think this is coming back to spirit of the law versus letter of the law. We, we drafted very complex contracts. That contractually met the constraints of Fiqhul Mu'amalaat. But actually, when we step back, we had not taken into account the social implications, the Maqaasid, the objectives of Shariah.

The objectives of Shariah mean that we need to be more holistic in our thinking. So, whilst we may have ticked the boxes that this contract met certain criteria, we didn't think to ourselves, is this good for us? Is this good for Muslims? Is this good for humanity? Is the fact that we destroyed all the hills around the city and pieces of our history, is that good for us?

Is the fact that we chased short term profits over long term gains good for us? Is the fact that we demonstrated high time preference over deferred gratification, low time preference, good for us? Is the fact that we rewarded, we rewarded a small group of people who sit at the top with access to money preferentially when it's printed good for us.

Ibraheem Khan: But it seems that your criticism is actually a criticism of capitalism of where capitalism has led us, and a stage of where capitalism has left us where we at. It has caused this 'boom' and 'bust' economy. An economy that has caused inequality, an economy

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which loses sight of some of the sublime objectives that human society should be seeking. It's a very wholesome criticism, and I suppose that the counter argument, at least, I am going to see it in my comments section is from some Muslims who say that wait a minute, are you not, Haaris, do you not just have a problem with trade, and a problem with profit, with wealth creation, are you just endorsing an Islamically tinged socialist type of economy which outs the brakes on the type of wealth creation which capitalism had undoubtedly created in the last century?

Haaris Irfaan: I am not. I strongly believe in free markets. I strongly believe in wealth creation if done in a way that accords with the law of Allah ﷻ. And in fact, there is a very famous Hadeeth about price fixing. So, prices of commodities were shooting up and the people approached Rasoolullaah ﷺ and they asked him to fix prices.

The Hadeeth is narrated as follows,

عَنْ أَنَسِ بْنِ مَالِكٍ رَضِيَ اللَّهُ عَنْهُ مَرْفُوعًا: قَالَ النَّاسُ: يَا رَسُولَ اللَّهِ غَلَا السَّعِيرُ فَسَعِّرْ لَنَا فَقَالَ رَسُولُ اللَّهِ ﷺ: "إِنَّ اللَّهَ هُوَ الْمُسَعِّرُ الْقَائِضُ الْبَاسِطُ الرَّازِقُ وَإِنِّي لَا رَجُو أَنْ أَلْقَى اللَّهَ وَلَيْسَ أَحَدٌ مِنْكُمْ يُظَالِمُنِي بِمُظْلَمَةٍ فِي دَمٍ وَلَا مَالٍ."

Sayyidna 'Anas ibn Malik رَضِيَ اللَّهُ عَنْهُ reported that people said: "O Rasoolullaah ﷺ, the prices have shot up, so fix the prices for us." Rasoolullaah ﷺ said, "Indeed, Allah is the One who fixes prices, the Withholder, the Extender, and the Provider. Indeed, I wish to meet Allah while none of you will have any claim against me for an injustice regarding blood or property."

[Ibn Majah: 2020]

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It is Allah who is responsible for prices.” And he did not want to be responsible for performing an injustice on the people for which he would have to answer on the day of judgment. Every experiment that we have seen, and in extreme forms, it's taken the form of communism, for example, where we attempt to fix financial or commodity markets, or fix prices, or fix the economy, or centrally plan the economy, has resulted in disaster, in mass starvation even.

Clearly, that is not the system that Allah intends us to use. Similarly, the modern form of capitalism is not capitalism as I define it. It's capitalism on steroids. It's turbocharged. It's intended to benefit a very, very few people at the very top. Capitalism is a good thing. Capitalism is a fair distribution of wealth, of wealth creation across all levels of society.

Everyone can have a basic decent standard of living and a closure of the inequality gap. I believe capitalism is something that Allah actually wants us to do. He wants us to create wealth in a good way and use it in a good way. And there are checks and balances there. We have to protect the weak and vulnerable.

There are Ahaadeeth about not meeting the traders, the caravans outside the city limits. So that you're not able to take advantage of prices in bulk before the commodities reach the marketplace. This is a form of protecting the consumer.

عَنْ أَبِي هُرَيْرَةَ رَضِيَ اللَّهُ عَنْهُ عَنِ النَّبِيِّ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ: "لَا تَلْقُوا الرُّكْبَانَ وَلَا يَبِيعَ بَعْضُكُمْ عَلَى بَيْعِ بَعْضٍ وَلَا تَتَجَشَّوْا وَلَا يَبِيعَ حَاضِرٌ لِبَادٍ وَلَا تُصَرُّوا إِلَّا بِإِلٍ وَالْغَنَمَ وَمَنِ ابْتَاَعَهَا فَهُوَ يَخِيرُ النَّظْرَيْنِ بَعْدَ أَنْ يُحْلِبَهَا: إِنْ رَضِيَهَا أَمْسَكَهَا وَإِنْ سَخِطَهَا رَدَّهَا وَصَاعًا مِنْ تَمْرِ."

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Sayyidina 'Abu Hurairah رَضِيَ اللَّهُ عَنْهُ reported that Rasoolullaah صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ said, "Do not go out to meet the riders [in a trade caravan], do not urge buyers to cancel a sale transaction to make a new one with you, do not bid against each other [to fool another bidder], a townsman must not buy on behalf of a Bedouin, and do not tie up the udders of camels and sheep [so that they appear to have a lot of milk]. However, if someone buys them while in this condition and has already milked them, then he has two options: If he is pleased with them, he may keep them, and if he is displeased with them, he may return them along with a Sa' of dates."

[Muslim]

There is a famous example of Imam Abu Hanifa, who, owned a textile shop in Kufa. He was a textile trader, and a woman came to him. With a piece of cloth of silk. She said to him,

"I would like to sell you this cloth, how much will you give me for it?"

He asked,

"How much do you want?"

She said,

"A hundred Dirhams."

He said,

"No, it's worth much more than that." Which is an amazing thing to say.

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I mean, why would you as a trader say,

"No, I'm going to pay you more?"

He said,

"No,"

so, he didn't want to deceive the woman. He had a superior knowledge. He had the advantage of being an expert in that field and the woman was vulnerable because she was not. He could not take advantage of that. And she said,

"Okay, 200 Dirhams."

He said,

"No."

Eventually, they settled on 400 Dirhams, which is a huge change from where she was originally. That's an idea of protecting the weak and vulnerable, and that's inherent in our, in our trade structure, in our Fiqh al Mu'amalaat.

Ibraheem Khan: That's not capitalism. I mean, capitalism is laissez faire³ as we understand it.

Haaris Irfaan: If you define capitalism as a profit for the benefit only of shareholders, the pursuit of profit only for a small group of people

³ The policy of leaving things to take their own course, without interfering.

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who are the holders of the capital, the shareholders, then that's what modern capitalism is. But capitalism, according to Islam, is not that. It is the free pursuit of profit in any field that is halaal, without fixing prices, within certain boundaries, such as lack of exploitation of people who do not have, knowledge or who are vulnerable or who are, who are weak. So, within the Islamic capitalist system, we have institutions like endowments, Awkaaf. We have institution of Zakaat. We have other institutions that allow us to ensure that everybody is protected at every level of society.

And I firmly believe that if we had implemented those rules, we would not have the level of inequality that we have in society today.

Ibraheem Khan: I mean, I agree with everything you've just said there in terms of the dynamics of an Islamic economy and how it functions. But I suppose it's, I feel somewhat reluctant to label that an Islamic capitalist system.

Because for me, capitalism is fundamentally without restraints, it's without state control, it's without state intervention, of course.

Haaris Irfaan: What's so good about state intervention though?

Ibraheem Khan: Well, you're right in saying that there are some ethics in state intervention, though, the socialist ways of commanding production and supplies is highly problematic from an Islamic perspective. I completely agree with that. But just a simple Hadeeth you mentioned about how do we prevent some traders accessing the caravan before it enters Medina. You know, there's going to have to be some form of state regulation.

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Haaris Irfaan: Sure, yes, I agree.

Ibraheem Khan: Zakaat over the last, you know, before the, the demise of the Ottoman Khilaafat or after demise of the Ottoman Khilaafat where we didn't have a centralized government, an Islamic government before then. We used to have the regulation of Zakaat.

And because they've got the bird's eye view, and they can allocate those really important charitable resources to the right people. So, in Islam, there's a strong element, not a socialist element for sure, but a strong governmental component within the economy. Now we can debate and I'm sure scholars debate how much the government should intervene, in the case of price fixing, there is a necessary role for government, whereas my understanding of capitalism and to be honest, I'm not an economist, but my understanding of capitalism is that it is very much about leaving any form of government interaction in the economy. Isn't there?

Haaris Irfaan: I think that's a modern interpretation of capitalism. Yeah. I think a classical interpretation would be very different.

Although the interview continues for some time, I have extracted only aspects that were necessary to bring to the fore. Hence, we end the interview script at this point.

The Sultan Choudhury Narrative

I have opted to extract very little from this interview for varying reasons.

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1. Most of the interview probably a quarter had to do with personal details, growing up, and other details that are not pertinent.
2. The first part of the interview had to do with much technical and legal waffle that the layperson wouldn't really understand and has nothing to do with Islamic Finance per se.

Sultan Ahmed Choudhury is an English banker, chartered accountant, and former CEO of Al Rayan Bank (previously known as the Islamic Bank of Britain).

Despite being highly qualified, his qualifications (including Islamic financing) were attained at western secular institutes which is a far from the authentic classical Dars-e-Nizami curriculum.

His career spans from being a Chartered Accountant to being a CEO of an 'Islamic Bank' in 2019.

Despite having an impressive secular education and career, a lack of proper Deeni Taaleem (Islamic education) can render someone a tool of secular ideologies. This is a clear example of what happens when Islamic principles are not deeply ingrained in a person's life. The interviewer for this discussion was Ibrahim Khan.

Extracts from the Interview

Ibrahim Khan: What about people who say that Islamic mortgages are not really Islamic, and they say that you peg4 it to the base rate. They say that are you reaching out and at some point, there's this kind of interbank market thing going on and actually you guys are just

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pulling the money from conventional at some level and selling it to the mainstream.

Let me write that down. So, you've got pegged and then the source of the money, and then you've got people who say that it's just like debt, because you're locked into buying it to the end. Any others? Any other issues? Let's just stop with those. There are probably other issues. You don't share risk? You don't share risk?

Sultan Choudhury: I want to come top down to this, right? Because people come up with very, very specific issues, and ultimately, when I reflect on it, it's a choice between an absolutist approach, and a progression to a target approach. And what do I mean by that? So, the absolutist approach is, you know, on the face of it, it has some of these flaws or 'perceived flaws.' And we'll go into why they are or not in a minute, and as a result, "Ah! I'm not going to bother. It's the same thing." et cetera.

But I put it to the absolutist. If I have a NatWest mortgage, or an older mortgage or whatever it is, you know, all the more mortgage and it just says very clearly, very transparently, here's an interest-based loan and here's a charge.

Now other than for, from Zarooriyaat, and the circumstances that apply, [i. e. necessity], no scholar is going to say that that contract is Islamic, right?

And even if you come from that . . .

Ibrahim Khan: There, there are some people who will say about let's assume . . .

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Sultan Choudhury: Yeah, but I mean, the actual terms of that contract.

Ibrahim Khan: Yeah, some, some would actually say that that is Islamic. They're a minority, but let's not worry about them.

Sultan Choudhury: But then similarly, if I say, okay, let's assume I come from the perspective, these Islamic products are flawed, but I've got a contract here with lots of . . . and, and most of them will not doubt the veracity and the quality of the scholars.

You know, some of these are vice chairman of Majmah Fiqh Islami. And they've said, look, I've got knowledge in Fiqh Mu'aamalaat, and this is a legitimate Islamic contract. And you'll have other scholars like who say, no, it isn't all the same and there's all these flaws. But even in that scenario, I've got one that's pretty much black and white, notwithstanding the Dhururiya, school and all that, right. And then you've got these people who are saying, okay, there are a lot of eminent scholars that approve it. So, if from even from a peace of mind perspective, which one is going to give you, let's call it on the spectrum a bit more peace of mind, at least Islamic one law. And then the second point is if you're . . .

Ibrahim Khan: . . . and I actually think I don't want to cut you off. But I actually think that the anger and frustration that comes is because someone is has gone for it for this cheap rock. And they feel a bite of the conscience because it becomes a price.

Sultan Choudhury: There's a cost of piety as it were. And then you're looking for reasons to negate the other products, right? Because I can get it for 3 %, 4%. And so, there's that. And then the other point is

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and the way I always looked at it and I get on with the people who criticize the products. I get on with them very well because I say to them, look, it's just a difference in approach. Do the products epitomize the ideals? I do. You do. But my approach is I'm having to work within a system that is constructed against providing this. And so, when you see some of the alternative home finance products that are not regulated for HPP, so trying to do something different. The problem is, is they're operating in a system that doesn't give them the tax breaks, right?

And that doesn't mean it's wrong, it's just saying, what about if, in an idealistic world, if I'm running a home finance company that's doing it this way, within the system, getting the tax breaks, and I've got an ideal, I've still got the same ideal as you, but I'm going to work progressively within the system.

And that's the approach I took when I was at the bank, that's the approach I still take. You can either sit on the outside and say it's not right and try and reinvent the wheel and try and do some real breakthrough products I admire them. Well, you can say I'm working within the system. I'm going to move it forward and the legitimate criticism from these people and I wish I subscribe to is it's when somebody finds a compromise or rest a resting place and stops moving forward.

And I'm, and I really think that's the problem, because if you don't hire the people who have the same goal, actually, we do have, share the goal of a Shariah Scholar. All the scholars will say the same thing. Let's make it better. Let's get it closer to the ideal. Working within the bank or working within the finance house. But if you don't have a goal, suddenly hire somebody who's thinking, well, it's, you know,

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it's, it's just much easier. It's more efficient. Stay where we are. Work the system. Just go for it. Mass penetration now, whatever it is, then, you come to an impasse and the industry doesn't progress. And that's when you kill the goose that laid the golden egg.

Ibrahim Khan: That's right.

Sultan Choudhury: And so, what does it, what does it boil down to? You've got to have. People who buy into that philosophy that we're still moving the ideal, but of course, if it's bank first and Islam second

Ibrahim Khan: I don't think they are.

Sultan Choudhury: It's not gonna. It's not gonna happen. I don't think there's any movement, but if it's Islamic first and bank or finance house or investment house second.

Well, then your goal is always to learn and approve and make it better. And this is why I really get on with the people who criticize it. As I respect their opinion. I don't agree with their opinion because I've talked to scholars who will say otherwise. But I respect their opinion because ultimately, we do have the same goal.

Ibrahim Khan: Yeah, makes complete sense. And I completely agree with this, by the way. I've been working on this very long article on Islamic finance and where, you know, where we need to be going. And I think it comes down to the same point, which is that, you know, the frustration with Islamic finance that people have is because We, we're solving for a problem in this microcosm and this like very narrow view and, and actually if we take a step back and there needs to be a vision, often there isn't in Islamic financial

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institutions and you sketch that out and you say, all right, this is where we are and that's where we're going.

Then people can kind of understand and there needs to be, there needs to be that movement happening. But at the moment I don't think there is a sketched-out end vision often. I don't think there is a path, and I don't think there's any movement. So, some people are upset.

Sultan Choudhury: And that's why I said it's a legitimate criticism of where the industry is today, and, you know, people are, you know, I guess hoping that the new players will shake it up. And I hope so too, because even, you know, it's, it's, it's an ecosystem. So, you know when somebody pushes the boundaries, it creates the whole equilibrium to shift. And then we do want that. So, I think where it is, is what it boils down to sometimes is etiquette.

It's the etiquette of pushing your own philosophy or criticizing somebody else's. And I prefer to. You know, if I've got a product, I'll just push my product and the goal that we're going to and have some patience with us. We're talking to lawyers and we're talking to Muftis, and we're talking to the regulators to try and push it forward.

But we are where we are, or I can sit on the outside and critique, throw stones, or actually do I just push my own product? And I think it's better, the etiquette is not to throw stones because the market's small enough. Throwing the stones causes what little confidence there is sometimes to dissipate further.

And I think this is where we do all work together and say, Yeah, I respect your difference. Yeah. And I think it's a maturity thing from a community standpoint. And it, I guess it reflects in other aspects of

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the Muslim community. Do we have the maturity to learn how to disagree in a mature way?

Which doesn't actually cause this division and there is a methodology for that, right? And we don't adopt it.

Ibrahim Khan: So, Sultan, I take great pleasure in asking you these questions because they're the questions I always get asked.

Sultan Choudhury: So, I didn't sidetrack them well enough, clearly

Ibrahim Khan: And I'm like, you know, I always internally roll my eyes because this is like the thousandth time, I've been asked it. This time I'm on the asking end. So, pegging, one line.

Sultan Choudhury: This is an easy one. Because it's an index. The contract is not saying it's interest. The contract is saying it's profit or rent. And all we're saying is if a guy, . . . as the famous example from a very famous scholar is if you've got the beer shop next to the lemonade shop and the beer shop guy puts his price up five percent and the lemonade shop guy puts his price up five percent, does it make the lemonade haraam?

Ibrahim Khan: No.

Sultan Choudhury: The answer is no. Bismillah.

Ibraheem Khan: Okay. Done. Lemonade. Okay. Lemonade is the answer there. Source of money?

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Sultan Choudhury: Source of money. Right. you go to the halaal butchers. Does the butcher ask you where you got your money from when you buy the halaal meat?

Ibrahim Khan: No.

Sultan Choudhury: Because the contract for you is between him and buying the meat the contract, but the person who earns their income in a halaal way is accountable to Allah for that income and so at that level, I think it's you don't have to consider that to that degree.

That's in the progressive view. But I believe you know, the, the source of funding providing it's Shariah compliant and certified as such. And I can take confidence in that. Then I'll live with that.

The interview continues at length, I extracted what I thought was necessary. This interview reeks of the stench of haraam financing made halaal, and he is blatantly honest about it.

A Synoptic Analysis of Two the Interviews

This comparative analysis examines the interviews of two bankers, Haaris Irfaan and Sultan Chowdhry, both of whom demonstrate frankness in their respective discussions, though Irfaan's account emerges as notably more forthright and introspective.

Contrasting Approaches

Chowdhry's interview, despite his extensive credentials and involvement in various community and governmental advisory groups, presents a perspective that appears somewhat inflexible. His

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purported contributions to the development of Islamic Financial Services in the United Kingdom, along with his chartered membership in prestigious institutions, seem at odds with the content of his discourse. Chowdhry's argumentation, characterized by questionable word choices and perplexing examples, ultimately undermines the credibility of his position.

In stark contrast, Irfaan's interview provides a lucid and unequivocal stance. He asserts that any transaction with a commercial bank worldwide inherently involves the Fractional Reserve system, which he unambiguously identifies as *riba* (usury). This fundamental point effectively challenges the very premise of Chowdhry's arguments regarding Islamic banking.

Admissions and Contradictions

Chowdhry's interview is replete with subtle admissions and outright contradictions. He inadvertently acknowledges that his financial products may not be fully Shari'ah-compliant yet persists in labeling them as "Islamic Financing." This discrepancy is further highlighted by the referenced BBC article, which alludes to the questionable practice of obtaining fatwas (religious rulings) from amenable Muftis.

Verbal Tones and Their Impact

Both interviewees employ subtle linguistic devices and catchphrases that could potentially mislead the uninformed Muslim borrower or investor. This linguistic manipulation mirrors the methods some religious scholars use to reinterpret prohibitions into permissible actions through loopholes in religious rulings.

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A Crucial Observation

Irfaan's commentary on stock exchange investments raises a particularly salient point that warrants careful consideration in the broader context of Islamic finance.

In conclusion, this analysis reveals the complex and often contradictory nature of discussions surrounding Islamic finance, highlighting the need for greater transparency and adherence to religious principles in financial practices

Investing in Halaal Stocks and Commodities on the Stock Exchange

Many Muslims, and possibly 'Ulama and Mufti's render dealing in the stock exchange as halaal and permissible provided they invest in stocks and commodities that are halaal, like construction, metals, and the like.

I quote Haaris Irfaan, who is a financial architect, and with his team of financial structuring models had structured 'The Doomsday Fatwa'.

Ibrahim Khan: So, tell me about the doomsday fatwa.

Haaris Irfaan: Yeah. So, shortly after the Makkah towers project, when Deutsche Bank had established a foothold in the Middle East, we created the atomic bomb of the industry, hence why I call it the Manhattan project.

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Yeah. And this was a particular technique that my team at Deutsche Bank created to replicate the financial return from any financial instrument whatsoever. So, think of the most haraam thing that you can think of. Pork belly futures, right? We could replicate the return through what's called a total return swap of pork belly futures and give that as an apparently halaal return to an Islamic investor through what's called an orphanized vehicle. It's a way of distancing the investor from the underlying asset far, far away from them. In the middle, you've got this black box that swaps away the return of the haraam instrument and gives them the return of something else that they legally own.

So, the black box contains a perfectly halaal asset. It might be metals on an exchange copper on the London metal exchange, right? That's what they own legally. And yet the investment bank Deutsche Bank swaps away the return in this black box and gives them the return of something else which is specified on a on our terms and conditions sheet. So, we were able to create all kinds of exotic investment products what we call structured investment products, and these are typically the kind of things that high-net-worth individuals with Swiss bank accounts would invest in all kinds of very highly complex derivative instruments.

A Reply to the Puzzle of Virtuous Investing

In the realm of financial investments, particularly within the context of Islamic finance, a profound dilemma emerges when one delves deeper into the intricacies of stock market transactions. Consider, if you will, the following scenario:

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You, as a conscientious Muslim investor, provide explicit instructions to your stockbroker to allocate your funds towards the construction sector, ostensibly adhering to halaal investment principles. Your broker, in turn, channels your investment into what can be metaphorically described as 'The Black Box' – an opaque system designed to maximize returns on investments.

However, the crux of the ethical quandary lies in the nature of the profits that emerge from this enigmatic 'Black Box'. Contrary to your intentions, the financial gains you accrue may, in fact, be derived from assets and commodities associated with enterprises that conflict with your moral or religious principles – such as an alcohol manufacturing company.

This revelation opens up a Pandora's box of ethical considerations and potential contradictions. The complexity of modern financial systems often obscures the true origins of our investment returns, challenging our ability to maintain strict adherence to ethical or religious guidelines.

In light of this sobering realization, it is imperative to reassess one's approach to stock market investments. I strongly recommend seeking counsel from a qualified Mufti or religious scholar who can provide guidance on navigating these murky waters while remaining true to your principles. The intersection of faith and finance demands careful consideration and informed decision-making to ensure that our financial practices align with our deeply held beliefs and values.

Word Usage of Haaris Irfaan that Can Lead the Unwary Muslim Astray

Sidestepping the Question:

Ibrahim Khan: Haaris, there are many scholars, Islamic scholars of high repute, who endorse these products. And some of them sit on the boards of these Islamic finance companies. Are you in effect saying that these Islamic scholars have all got it wrong?

Haaris Irfaan: I'm not saying that because, well, the vast majority of scholars in this industry that I've met and I know are, first of all, highly competent individuals and secondly, individuals with a high degree of integrity.

So, I'd certainly wouldn't say that. What I would say is that they are captive to the system, much like economists are. And perhaps in some cases they can't really see beyond that narrow focus that they have and in order to stay employed. They appear to have little choice, but to endorse the products that currently exist.

The second thing I would say about that is, in many cases, they have put provisors on these products, which are often ignored. So, for example, in the case of Commodity Muraamaha, which is often described as Tawarruq by many banks. It's not important what the specifics are of the, of the transactions involved in it, but basically, it's a case of smoke and mirrors.

The question was outright and direct. Irfaan's side-stepping of the issue appears as a denial of what is taking place. Below are more pertinent and replies that explain how the question could have been

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answered without the quoted, "I'm not saying that because, well, the vast majority of scholars in this industry that I've met and I know are, first of all, highly competent individuals and secondly, individuals with a high degree of integrity.":

A Critical Analysis of and Reply to Haaris Irfaan's Response

Haaris Irfaan's response to the question at hand appears to be an exercise in diplomatic evasion rather than a forthright address of the issue. While his discretion may be commendable in certain contexts, the gravity of the matter—concerning the faith of countless Muslims—demands a more direct and unequivocal stance.

On Scholarly Integrity

Irfaan's assertion regarding the competence and integrity of scholars in the industry, while seemingly respectful, inadvertently provides unwarranted credibility to practices that may compromise Islamic principles. It is imperative that religious scholars, particularly those versed in Islamic jurisprudence, exercise their duty to clearly delineate between the permissible (halaal) and the forbidden (haram) without equivocation.

The Delusion of Total Confinement

Irfaan's suggestion that these scholars are "captive to the system" and constrained by employment concerns is profoundly problematic. As theologians, Muftis, and 'Aalims who have undergone rigorous Islamic education through systems like the Dars-e-Nizami, these individuals are expected to embody unwavering adherence to

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Islamic principles. The notion that they might be unable to transcend systemic limitations or that they must endorse questionable products to maintain employment is opposing to the core tenets of their calling.

The Imperative of Taqwa and Tawakkul

Islamic scholars are entrusted with safeguarding the faith of the Muslim community. Their role demands an unwavering commitment to Taqwa (Allaah-consciousness) and Tawakkul (trust in Allaah). The suggestion that they might compromise these principles due to systemic pressures or employment concerns is deeply troubling. A true submission to Allah precludes being captive to any worldly system.

In conclusion, while Irfaan's response may have been an attempt at diplomacy, it falls short of addressing the critical issues at hand. The integrity of Islamic finance and the faith of Muslims who rely on scholarly guidance in this domain require clear, unambiguous direction from those entrusted with religious authority.

Cognitive Dissonance⁴

⁴ Cognitive Dissonance is a psychological concept describing the mental discomfort experienced when a person holds two or more conflicting beliefs, values, or ideas, or when their behavior contradicts their beliefs. This tension motivates individuals to reduce the inconsistency, often through rationalization or change.

Examples:

- A smoker aware of health risks may leave smoking, downplay the dangers, or justify smoking as stress relief.
- Someone who buys an expensive car might overemphasize its benefits to justify the cost.
- A person who values honesty but tells a lie might convince themselves the lie was harmless.

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Ibrahim Khan: I mean, that's outstanding. I mean, so, a person who today wants to purchase a house, a Muslim living in Britain who wants to purchase a house, are you saying that they should regard all Islamic banks, Islamic finance instruments in the same way as a traditional high street bank, as a riba based bank and so, these banks and these instruments are haraam.?

Haaris Irfaan: Well, here again, I demonstrate some cognitive dissonance and it's very difficult for me to say that that is the case. First of all, is there a viable alternative?

He had sidestepped this question too. The question asked was,

“... a person who today wants to purchase a house, a Muslim living in Britain who wants to purchase a house, are you saying that they should regard all Islamic banks, Islamic finance instruments in the same way as a traditional high street bank, as a riba based bank and so, these banks and these instruments are haraam?”

Irfaan's reply was, “Well, here again, I demonstrate some cognitive dissonance and it's very difficult for me to say that that is the case. He had already exposed the fractional reserve system, and he falls back to cognitive dissonance.

“However, for Allaah's sake, if one faces desperate situations, a dharooriyaat – if one has dire necessities, do not use cognitive dissonance to solve your necessity, please consult with a well-versed Mufti who will direct you with Allaah سُبْحَانَهُ وَتَعَالَى's assistance to the right direction.

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Cognisant Dissonance Continued

Haaris Irfaan: So, I would say that we should, as Muslims, support the Islamic finance industry, but we should be very discerning about what we choose to support and choose to walk away from. Now, having said that, if I want to finance my house, I have very few alternatives.

And even I have used an Islamic bank to get a mortgage. Because I felt that the alternative would be to go to a large high street bank, who have no interest in or affinity in, affinity with Muslims or the halaal economy. So, I would rather support those who do have an interest in that and are trying to move in the right direction. Unfortunately, again, it's cognitive dissonance.

Here he would choose to support Muslims, and pass over the sin to them, as he says, "Because I felt that the alternative would be to go to a large high street bank, who have no interest or affinity with Muslims or the halaal economy. So, I would rather support those who do have an interest in that and are trying to move in the right direction."

Both the banks are haraam, so why not pass on the gunah (sin) onto the non-Muslim high street bank instead of compounding the Muslims gunahs (sins) by using their impermissible finance.

A Reply to the Fallacy of Cognitive Dissonance in Islamic Jurisprudence

The concept of cognitive dissonance, a psychological phenomenon characterized by the discomfort arising from holding conflicting

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beliefs or values, has no place within the framework of Islamic principles. This psychological construct, which describes the mental tension experienced when one's actions contradict their beliefs, leading to a motivation to resolve such inconsistencies, is fundamentally at odds with the clarity and certainty provided by Islamic teachings.

In the context of Islamic jurisprudence and practice, there exists no room for such internal conflict or ambiguity. The principles of Islam offer a clear delineation between what is permissible (halaal) and what is forbidden (haraam), leaving no space for the justification of contradictory behaviours or beliefs under the guise of psychological discomfort.

It is concerning to note that Haaris Irfaan appears to invoke the concept of cognitive dissonance with some frequency during his interview. This reliance on a psychological theory to explain or potentially excuse inconsistencies in Islamic financial practices is deeply problematic. Such an approach risks providing undue latitude to Muslims across the spectrum of faith adherence—from the devout to the wavering to those already engaging in prohibited activities.

The introduction of cognitive dissonance as a mitigating factor in discussions of Islamic finance and practice is not merely misplaced; it is potentially harmful. It opens a dangerous precedent where psychological theories could be used to rationalize deviations from clear Islamic guidelines. This approach undermines the very foundation of Islamic ethics and decision-making, which are rooted in unambiguous divine guidance rather than fluctuating human psychological states.

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The integrity of Islamic principles demands unwavering adherence, free from the equivocation that concepts like cognitive dissonance might introduce. It is imperative that discussions of Islamic finance and practice remain grounded in the clear directives provided by Islamic teachings, rather than being muddled by psychological theories that have no place in this context.

Analyzing Sultan Chowdhary's Interview Responses

Word usage and voice intonations holds a position of paramount importance. This subtle yet powerful aspect of speech serves as a window into the speaker's character, revealing depths of personality and intention that often transcend the mere words uttered. In the rich tapestry of Urdu communication, the concept of 'lehja' - the nuanced art of vocal intonation plays a significant role in conversation.

The Deep Impact of Vocal Tones Word Usage of Sultan Chowdhary

To illustrate the profound significance of 'lehja', consider this enlightening anecdote:

A seeker of knowledge once approached the esteemed Moulana Imraan Sahib رَحْمَةُ اللهِ عَلَيْهِ of Bhopal, engaging in a discourse on Sunnats. During their conversation, the visitor remarked, "But it is only a Sunnat," referring to a Sunnat.

Moulana Imraan Sahib رَحْمَةُ اللهِ عَلَيْهِ, with his characteristic wisdom, responded, "Your statement is factually correct; it is indeed a Sunnat. However, the tone in which you expressed it borders on Kufr."

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This poignant exchange exemplifies the critical role that 'lehja' plays in communication. It demonstrates how the same words, when imbued with different tonal qualities, can convey vastly divergent meanings - ranging from respectful acknowledgment to borderline blasphemy.

Considering this understanding, it is worth noting that Sultan Chowdhary's interview was characterized by a 'lehja' that left much to be desired from a spiritual perspective. His intonation and manner of speech fell short of the reverence and depth one might expect in discussions of religious significance.

This observation serves as a reminder of the importance of cultivating not only proper speech but also appropriate 'lehja' in our discourse, particularly when addressing matters of Deen and Sunnah. It underscores the need for mindfulness in our communication, recognizing that how we speak can be as impactful as what we say.

Other Observances

The Aspect of 'Perceived Flaws'

Sultan Choudhury: Ultimately When I reflect on it, it's a choice between an absolutist approach, and a progression to a target approach. And what do I mean by that? So, the absolutist approach is, you know, on the face of it, it has some of these flaws or 'perceived flaws.'

A Reply to Chowdhary's Concept of 'Perceived Flaws'

The statement in question reveals a concerning perspective on the criticisms levelled by Islamic scholars against certain financial practices. By characterizing the flaws identified by these 'Ulama as merely "perceived," the speaker appears to be dismissing or minimizing legitimate concerns raised by experts in Islamic jurisprudence. This stance raises several important questions:

Expertise and Authority

Are we to understand that the speaker considers his judgment on matters of Islamic finance to be superior to that of trained religious scholars? This implies a troubling disregard for the expertise and authority of those who have dedicated their lives to understanding and interpreting Islamic law.

Objectivity vs. Perception

The use of the term "perceived flaws" suggests that these issues are subjective or open to interpretation. However, in matters of Islamic law, there are often clear guidelines and principles that are not simply matters of perception but of objective religious truth.

Basis for Disagreement

If the speaker disagrees with some of the 'Ulama, what is the foundation of this disagreement? Is it based on a deeper understanding of Islamic finance, or is it perhaps influenced by other factors such as commercial interests or a desire to reconcile Islamic principles with conventional banking practices?

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Implications for Islamic Finance

By dismissing criticisms from religious scholars as mere perceptions, does this approach not risk compromising the integrity of Islamic finance? There is a danger here of prioritizing form over substance, potentially leading to practices that are Islamic in name but not in essence.

Responsibility to the Muslim Community

Given the importance of financial matters in Islam and the trust placed in Islamic financial institutions by the Muslim community, is it not incumbent upon those in positions of authority to take scholarly criticisms seriously rather than dismissing them?

The characterization of scholarly critiques as "perceived flaws" is deeply problematic. It suggests a reluctance to engage seriously with important religious and ethical considerations in the field of Islamic finance. Such an approach risks undermining the very principles that Islamic finance is meant to uphold and serve. A more constructive stance would be to engage in earnest dialogue with religious scholars, seeking to address their concerns and ensure that Islamic financial practices truly align with the spirit and letter of Islamic law.

His "Peace of Mind" Concept

Sultan Chowdhary: You know, some of these are vice chairman of Majmah Fiqh Islami. And they've said, look, I've got knowledge in Fiqh Mu'aamalaat, and this is a legitimate Islamic contract. And you'll have other scholars like who say, no, it isn't all the same and there's all these flaws. So, if from even from a peace of mind perspective, which one is going to give you, let's call it on the spectrum a bit more peace of mind, at least Islamic law.

A Reply to Chowdhary's Misguided Notion of 'Peace of Mind'

Chowdhary's suggestion that choosing the "Islamic law" for "peace of mind" is deeply problematic.

Chowdhary admits, "And you'll have other scholars like who say, no, it isn't all the same and there's all these flaws." Hence flaws have been found. As the famous saying goes, "When in doubt, leave it out." Chowdhary's perspective fundamentally misunderstands the essence of Islamic ethics and decision-making. Both options presented - the conventional and the supposedly "Islamic" one - are haraam (forbidden) if they do not truly comply with Islamic principles. The notion that one can achieve "peace of mind" by choosing the lesser of two evils in financial matters is a dangerous misconception.

Chowdhary's omission of Taqwa (Allaah-consciousness) from this equation is particularly alarming. In Islamic thought, true peace of mind stems from adherence to divine guidance and abstention from the forbidden, not from choosing between two impermissible options. This oversight indicates a concerning lack of depth in understanding fundamental Islamic concepts.

These statements reflect a shallow comprehension of Islamic financial principles and ethics. They underscore the critical need for a more rigorous, scholarly approach to Islamic finance, one that prioritizes adherence to divine guidance over superficial compliance or misguided notions of "peace of mind." The Muslim community deserves financial guidance that is unequivocally rooted in authentic

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Islamic teachings, not compromised by worldly considerations or flawed reasoning.

A Cost to Piety?

Sultan Choudhury: There's a cost of piety as it were. And then you're looking for reasons to negate the other products, right? Because I can get it for 3 %, 4%. And so, there's that.

Reply: A cost to piety? What is Choudhury's Imaan worth? 3 %, 4%, as he states?

"Prioritizing the Bank Over Islam?"

Sultan Choudhury: But of course, if it's bank first and Islam second.

Reply: Is Choudhury now prioritizing banking over Islam?

Choudhury says,

"I Really Get on With the People Who Criticize It."

Sultan Choudhury: I really get on with the people who criticize it.

Reply: Getting on with the people who criticize his products is not the objective. The objective is getting on with the laws of Allaah

سُبْحَانَهُ وَتَعَالَى

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The Virtue of Constructive Criticism in Islamic Finance

In the realm of Islamic finance, as in all aspects of life guided by divine principles, the ability to receive and reflect upon criticism is not merely beneficial—it is essential. The notion that one must "get along" with critics or seek harmony at the expense of truth is a misguided one. Instead, a more enlightened approach involves respecting divergent opinions while maintaining the integrity of one's own convictions.

When faced with criticism, particularly from those well-versed in Islamic jurisprudence, the prudent course of action is to approach such feedback with an open mind and a sincere heart. This does not necessitate immediate agreement, but rather a thoughtful consideration of the points raised. The critics, whether sharing your ultimate goals or not, often serve as invaluable catalysts for growth and refinement in one's understanding and practice of Islamic finance.

The true measure of wisdom lies in the ability to learn from those who challenge our perspectives. By engaging seriously with critiques, we open ourselves to the possibility of mending flawed ideas and strengthening our adherence to authentic Islamic principles. This process of continuous learning and self-correction is not just about achieving harmony in this world; it is about securing a peaceful eternity in the Hereafter.

In the grand tapestry of Islamic ethics, the thread of humility weaves through all virtuous actions. Recognizing that no individual possesses perfect knowledge, and that growth often comes through

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constructive disagreement, is a hallmark of true scholarship and piety. As we navigate the complex waters of Islamic finance, let us embrace criticism as a tool for refinement, always keeping our eyes fixed on the ultimate goal: pleasing Allah and securing our place in the eternal abode of peace.

The path to a truly Islamic financial system is paved not with complacency or defensiveness, but with a sincere openness to critique, a willingness to learn, and an unwavering commitment to aligning our practices with divine guidance. It is through this approach that we can hope to establish financial systems that are not just nominally Islamic, but fundamentally and uncompromisingly adherent to the principles set forth by our faith.

The Question of Pegging

Ibrahim Khan: So, pegging, one line answer.

Sultan Choudhury: This is an easy one. Because it's an index. The contract is not saying it's interest. The contract is saying it's profit or rent.

Reply: Another case of calling Pretoria Tshwane. It has already been clarified in the footnote above that pegging of this nature is haraam.

Source of Money

Ibrahim Khan: Source of money.

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Sultan Choudhury: Source of money. Right. you go to the halaal butchers. Does the butcher ask you where you got your money from when you buy the halaal meat?

Ibrahim Khan: No.

Sultan Choudhury: Because the contract for you is between him and buying the meat the contract, but the person who earns their income in a halaal way is accountable to Allah for that income and so at that level, I think it's you don't have to consider that to that degree.

Reply: Spoken like a true, western secularized Muslim with all the secular philosophies of Islamic jurisprudence without having attended a Daarul Uloom. Secularism and Islam is an oxymoron with the 'ox' being sacrificed and a moron remaining."

It is a classic way of getting away from giving an admitting reply,

"My money comes from the fractional reserve system, which is haraam."

The 'Progressive View'

Sultan Chowdhary: That's in the progressive view. But I believe you know, the, the source of funding providing it's Shariah compliant and certified as such. And I can take confidence in that. Then I'll live with that.

Reply: Chowdhary said it as I had predicted. As explained previously, these are the people that are called the 'Goyim,' yet, paraically, a significant portion of society perceives this approach as

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enlightened, balanced, and responsible. However, the architects of this system regard their followers as incapable of independent thought, mere sheep following a predetermined path. Conversely, individuals who adhere steadfastly to Qur'aanic teachings and Hadeeth are held in high esteem by Allaah ﷻ.

Hadhrat Moulana Ashraf 'Ali Thanwi رَحْمَةُ اللهِ عَلَيْهِ's Advice

Hadhrat Moulana Ashraf 'Ali Thanwi رَحْمَةُ اللهِ عَلَيْهِ has left us with good advice regarding halaal and haraam issues. Hadhrat said,

“Consider the impermissible deeds you do as haraam. Do not try to justify it by making it halaal forcefully. Because even after habitually doing this for a long while, the haraam will never become halaal. However, if you persist in [making haraam halaal] over a long while, it will without doubt become your objective, your second nature. And to believe that haraam is halaal is Kufr. Whether this is absolute, or it is a possibility, in any case, to make a haraam halaal is an extremely serious matter. If you accept the fact that what you are doing is haraam, you are guilty, and you are a sinner, then you will not be involved in Kufr. It will [only] be considered a sin, and not Kufr. This is lesser than Kufr, [Kufr is the worst sin]. Another important point is that if you accept that what you are doing is haraam. [that you are doing wrong]. It will be neither strange, nor far-fetched that you would get the guidance to make Taubah.”

A Definitive Conclusion on the Fallacy of 'Islamic Banking and Finance'

The interviews with both financial experts have unequivocally demonstrated the non-existence of a truly 'Islamic banking and

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finance' system. While Sultan Chowdhary ardently attempted to establish the permissibility of certain practices, his arguments fell woefully short of even elementary logical scrutiny. His endeavors bear an unsettling resemblance to the cautionary words of the esteemed Hadhrat Moulana Ashraf 'Ali Thanwi رَحْمَةُ اللَّهِ عَلَيْهِ:

"Do not attempt to forcibly legitimize that which is forbidden. For even after prolonged habitual practice, the prohibited will never transmute into the permissible. However, if one persists in this misguided effort over an extended period, it will undoubtedly become one's objective, one is second nature. And to believe that the forbidden is permissible is tantamount to disbelief."

Chowdhary's persistent efforts to justify practices that fundamentally contradict Islamic principles serve as a stark illustration of this perilous path. His arguments, rather than illuminating a way forward for ethical Islamic finance, instead highlight the dangers of compromising religious integrity for the sake of financial expediency.

This situation calls for profound reflection within the Muslim community and the broader financial sector. It underscores the critical need for a genuine reevaluation of financial practices, one that prioritizes adherence to Islamic principles over superficial compliance or linguistic sleight of hand.

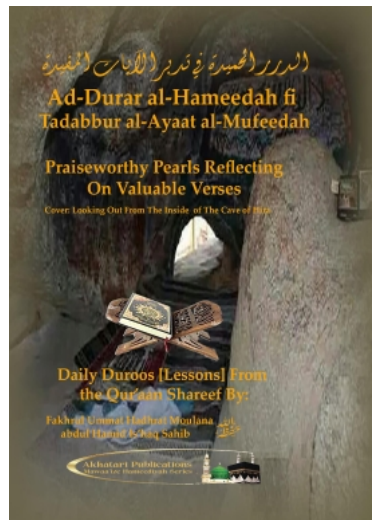
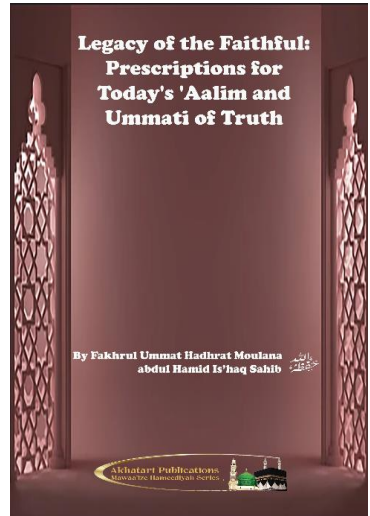
As we contemplate these revelations, we are reminded of the gravity of our responsibility as stewards of both our faith and our financial affairs. May Allah ﷻ, in His infinite Wisdom and Mercy, protect us all from the subtle yet dangerous temptation to rationalize

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that which is forbidden. May He guide those who have strayed into this territory back to the path of righteousness and ethical conduct.

In conclusion, this discourse serves as a clarion call for authenticity and integrity in financial practices within the Islamic world. It challenges us to aspire to a higher standard, one that truly reflects the ethical and moral teachings of Islam, rather than merely mimicking conventional financial systems under a thin veneer of religious terminology.

Our Future Publications



The Mirage Revealed: Navigating the Truth of 'Islamic Banking' and Finance

Not exposed by any Mufti or renowned 'Aalim. This book is built on the honest reflections of a financier who openly admits to how banking and finance is conducted worldwide. The following dialogue forms the crux of the revelation, but there is more . . .

Ibrahim Khan (asks Haaris Irfaan): So, tell me about the doomsday fatwa. Every time you deposit a dollar in the bank, and they can lend ten dollars, they've created nine new dollars of new money.

Haaris Irfaan: . . . in 1975, the first major Islamic bank was formed in Dubai, called Dubai Islamic Bank. At the same time, the Islamic Development Bank, which is a multilateral institution, was formed, and now you see the development of commercial, Islamic banking.

And at that point, you need to be regulated as a bank by the relevant authorities and if you are to be regulated as a bank, then you must be a fractional reserve institution. What does that mean? Well, it means that for every pound or dollar you deposit in the bank, they have the right to lend out more than is deposited in the bank.

That's the fraction, the fractional reserve. So, for example, they may lend out \$10 for every \$1 that's deposited. In other words, they've created nine new dollars from nothing really, it's a form of alchemy.

It's money from nothing. If you were to ask a sensible person who knew nothing about it was not formally trained in economics, "What do you think of this?"

They might reasonably conclude it's a form of fraud and yet, this is perfectly lawful.

Ibrahim Khan: Do all banks do this:

Haaris Irfaan: All banks do this.

Ibrahim Khan: British banks American banks . . .

Haaris Irfaan: Every bank in the world that is regulated by a central bank is a fractional reserve institution.

