# Islamic Banking Revisited

**MAHFUZUR RAHMAN** clarifies some of the misconceptions behind Islamic banking

ISLAMIC finance has expanded rapidly in recent years. Assets held by Islamic banks worldwide were said to have been over $800 billion at the end of the past decade. In Bangladesh, Islamic banking remains small in comparison with mainstream banking in the country. The first Islamic bank of the country was set up in the early 1980s, and in more recent years, a number of other banks have been established in quick succession. Business has increased rapidly.

The expansion of Islamic banking has also been matched by a spate of Islamist fervour in the writings of its proponents. Much of these writings have been couched in terms of denouncing mainstream banking practices, based as they are on the principle of charging interest on loans, something that is considered un-Islamic.

A great deal of these writings and public relations literature also explicitly see Islamic banking as a major step to the establishment of a sharia-based, interest free, Islamic political system. In discussions on Islamic banking, its proponents have the field pretty much to themselves. Sceptical voices have been strangely absent.

To go briefly over the basics: the Koran explicitly forbids "*riba*." But what is *riba*? The crux of the issue lies in that question and has been endlessly debated. Proponents of Islamic

