

## Differences between Islamic Banking and Conventional Banking Products

### Deposit Side Products

Products	Islamic Banking	Conventional Banking
<b>Current Account</b>	<p>Islamic Banks collect deposits based on the following underlying Shariah principles:</p> <p><b>Qard (قرض)</b> - Al Baraka Current Accounts are based on the Qard contract, whereby customer is the lender and ABPL is the borrower.</p> <p>The funds may be used by the Bank (ABPL) at its discretion in Shariah-compliant investments, and are payable, on demand by the lender (Customer), with neither any addition nor penalty.</p>	<p>Conventional Banks collect deposits based on the following principles:</p> <p>Conventional banks collect deposits from their customers on the basis of loan for Current Accounts.</p>
<b>Saving Accounts &amp; Term Deposits</b>	<p><b>Mudarabah (مضاربه)</b> - Al Baraka Saving Accounts &amp; Term Deposits are based on Mudarabah whereby Investors/Depositor (Rab al-Mal) provide capital to the bank (ABPL) who acts as Mudarib by investing those funds in Shariah-compliant avenues.</p> <p>Profit is shared as per the pre-agreed ratio between both parties. All losses are borne by Rab-ul- Maal as per the Islamic principle except if his negligence is proven</p>	<p>In Conventional banking, Savings Accounts &amp; Term Deposits are also based on loan in which the customer is the lender and the Bank is the borrower.</p> <p>The Bank pays Interest / Markup to depositors for their funds, which the Bank uses for further interest-based money lending to generate its non-Shariah-compliant earnings.</p>

## Asset Side Products

Products	Islamic Banking	Conventional Banking
<b>Rental Basis</b>		
<b>Ijarah</b>	<p>Ijarah is a form of rental arrangement in which a durable asset (vehicle, plant, and machinery) is leased out to a customer in a usable condition, under a contract between two parties (Al Baraka Bank and the customer) against a specific rental payment plan for a mutually agreed fixed period.</p> <p>The delivery of asset is the mandatory condition as the lease period, in Ijarah, starts after the asset has been delivered to the lessee. Asset remains in the ownership of the bank throughout the tenure.</p> <p>Any scenario involving the damage to the asset that has not been caused by the negligence of the lessee, the Bank (ABPL) would bear the damage.</p> <p>Furthermore, all Shariah Principals are abided by in case any situation occurs whether it benefits the bank or not</p>	<p>In conventional banking, the lease period for the conventional lease starts after the bank has disbursed.</p> <p>The delivery of asset is not a mandatory condition in conventional lease financing. In the conventional lease, the lease period may even start before the delivery of the asset to the customer.</p> <p>Any scenario involving the damage to the asset, the lessee (customer) has to bear the damage regardless of their negligence.</p> <p>Bank is always secured in terms of capital amount plus profit. So in case, any situation occurs such as non-availability of the leased asset for a particular time etc. The bank is covered in 100% of the cases.</p>

**Trade/ Sale Basis**

<p><b>Murabaha</b></p>	<p>Murabaha is a common mode utilized in Islamic banking. Murabaha is a cost-plus profit financing sale where the seller (ABPL) discloses the cost of a commodity and its profit to the buyer (the customer).</p> <p>Murabaha, therefore, is not a loan lent on interest. Rather, it is a sale of a commodity at profit similar to the shopkeeper who buys the inventory at a cost and then sells it to its customers by adding particular amount of profit.</p> <p>Under Murabaha contract, Al Baraka bank purchases an item for the customer upon his request establishing a contract between the two parties. Once the possession of the purchased goods is transferred to ABPL, same is sold to customer after adding the profit amount.</p>	
<p><b>Salam</b></p>	<p>Salam is a contract of sale where payment is done in advance for delivery of goods at a future date. ABPL, at the time of the contract, will pay an advance full price of the specific goods to the client ahead of the agreed upon future date in exchange of the supply of the goods.</p> <p>Salam caters to the Working Capital needs of Agriculture, manufacturers, and exporters of homogeneous commodities.</p> <p>Salam mode of financing is derived directly from the Sunnah of Prophet (SAW)</p>	<p>In conventional banking, the basis of the working capital finance is a loan contract where a conventional bank lends money to the customer. Moreover, the relationship between the bank and customer is that of a borrower and a lender.</p> <p>No risks are borne by conventional banks as these banks do not deal in goods. Thus, they do not cover any loss either.</p> <p>In addition, the income of conventional bank is based on the interest (Riba) received from the customer.</p>

<p><b>Istisna</b></p>	<p>Istisna is a short-term financing facility for transactions that caters to the needs of manufacturers.</p> <p>In Istisna, the bank (ABPL) places an order with the seller (customer) to manufacture certain asset and the sale will be completed once the asset has been delivered to the bank (Al Baraka).</p> <p>All Shariah rulings related to manufacturing contracts are abided by in true spirit.</p>	
<p><b>Partnership Modes</b></p>		
<p><b>Musharakah</b></p>	<p>Musharakah is a contract of partnership established with the mutual consent of involved parties where the partners share profits and losses of a joint venture.</p> <p>In Musharakah, the profits are shared as per agreed profit-sharing ratio whereas loss is shared as per investment ratios.</p> <p>Musharakah is a partnership used to finance homes, projects, trade, shares and equity products. Islamic funds and Musharakah Sukuk.</p>	
<p><b>Diminishing Musharakah</b></p>	<p>Diminishing Musharakah is a combination of Musharakah. Rental and trade contracts in which the customer and the bank (ABPL) will both invest jointly to own asset.</p> <p>It is a form of Musharakah where the ownership of an asset is divided into units. The bank (ABPL) will then lease its share of asset to the customer against periodical rental payments. After the</p>	<p>In conventional banking, for the running finance facility, a certain limit of loan is approved for the client to draw down cash as per his requirement/needs on which he is legally responsible to pay interest to the bank. Moreover, the relationship between both the parties is of borrower</p>

	completion of purchase of all the units, the customer becomes the sole owner of the asset.	(customer) and lender (bank). No risks are borne by conventional banks.
<b>Running Musharakah</b>	Running Musharakah is an alternative to a conventional running finance facility where the bank (ABPL) and the client enter into a partnership agreement where Al Baraka and the client agree to invest in the identified operating activities of the customer's business as well as participate in the profits or loss generated by Musharakah.	
<b>Tijarah</b>	Tijarah is a Musawamah based financing in which customer can avail financing against his owned inventory. This product is for those customer who hold inventory for the particular time	Conventional bank offers pledge base financing where goods are kept as a security and rest of the transaction is based on the concept of Qardh.
<b>Other Banking Modes</b>		
<b>Wakalah</b>	Wakalah is a paid agency contract. It is when a customer hires a particular service from Al Baraka Bank for a certain price. Wakalah is utilized in Islamic Finance, as a representative is appointed to undertake transactions on behalf of the bank (ABPL).	A conventional bank also acts as an agent of a customer in some scenarios, however, the principles of Wakalah, as prescribed by Islamic law of contract, are not abided by it
<b>Modes of Finance</b>		
<b>Running Finance/Working Capital Limits</b>	In Islamic banking, there are different modes of finance such as Murabaha Finance, Salam, Istisna, and Running Musharakah.  The risk for Islamic bank changes with the modes of financing, as every mode has its own risk profile. Moreover, the nature of customer's business also adds to the Islamic bank's risk of financing.	Conventional banks only have one mode of financing and that is loan based.

<p><b>Long-Term Finance</b></p>	<p>Islamic banking offers Diminishing Musharakah and Ijarah as long-term finance.</p> <p><b>Diminishing Musharakah</b> Diminishing Musharakah is a form of co-ownership in which two or more parties participate in a joint venture of a physical asset. As per the agreement, one of the partner (client) will buy the share of other partners in periodic installments, until the ownership of the asset is completely transferred to the co-owner (client).</p> <p><b>Ijarah</b> Ijarah is a form of rental arrangement in which a durable asset (vehicle, plant, and machinery) is leased out to a customer in a usable condition, under a contract between two parties (Al Baraka Bank and the customer) against a specific rental payment plan for a mutually agreed fixed period. The delivery of asset is the mandatory condition as the lease period, in Ijarah, starts after the asset has been delivered to the lessee.</p>	<p>Long-term finance is a loan facility spread over a year of tenor. In conventional banking, the loan is provided to the bank's customer or client and a markup (quarterly interest) is charged to the customers on their outstanding principal amount. Compounding of interest also takes place on annual basis The interest is also compounded on annual basis in conventional banking.</p>
<p><b>Conceptual Differences</b></p>		
<p><b>Lending &amp; Borrowing Mechanism</b></p>	<p>In Islamic banking, the funds would be collected on either the Qard basis or Mudarabah basis. ABPL as an Islamic Shariah Compliant bank would offer financing mainly under three Shariah modes: partnership, rental, and trade. <b>Qard:</b> It is a non-cumulative contract where the Qard is extended by the lender to a borrower. <b>Mudarabah:</b> It is a form of partnership of trust financing contract where one party provides the</p>	<p>In conventional banking, funds are borrowed from depositors on loan and further advance money to customers on loan. Conventional banks collect funds on debt basis along with charging interest to customers, as their profit. Moreover, the return provided to depositors is Riba (Interest) as it's a benefit on the loan (debt).</p>

	<p>fund while the other party provides the expertise. The party that provides the fund is Rab-ul-Maal whereas the bank (ABPL) would be Mudarib invests the provided funds in the avenues that are Shariah Compliant and shares the profits with its customers.</p>	
<p><b>Treating Money/Currency as a Commodity</b></p>	<p>In Islamic banking, money is not identified or credited as a commodity. Hence, Al Baraka will not sell or rent money to make any profit, as it would be Riba.</p>	<p>In conventional banking, money is identified as a commodity, so it can be rented as well as traded for interest.</p>
<p><b>Risk Sharing</b></p>	<p>Islamic banks operate in different modes. Musharakah and Mudarabah            In modes, such as Musharakah and Mudarabah, these are partnerships and by default that means sharing of profit as per the agreed ratio and sharing of loss as per investment ratio. Thus, the bank (ABPL) shares the risk with customers in such modes.            Murabaha, Salam and Istisna            On the contrary, in the trade-based modes such as Murabaha, Salam and Istisna, the bank (ABPL) will bear the risk of the commodity before selling it to the lessee. Similarly, in Ijarah-based modes, the ownership of the asset truly lies with the bank (Al Baraka) as we would bear any risk in case of complete loss.</p>	<p>In conventional banking, the bank offers service on debt for both depositors and borrowers, so there is no risk sharing involved on the part of the bank.</p>
<p><b>Late Payment Charges</b></p>	<p>Under Islamic banking, the bank (ABPL) would only charge charity to discipline the clients from delaying payments past the due dates. In addition, the charity income does not add to ABPL's profitability. Instead, it is collected and used for charity purposes.</p>	<p>Under conventional banking, banks make a significant portion of their net profits via late payment charges collected from their customers. Late payments are a substantial income for all the banks and it adds to their profitability.</p>