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ISLAMIC BANKING AND ISLAMIC E-COMMERCE: PRINCIPLES AND REALITIES

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Abstract

This paper makes an attempt to review major principles surrounding the working of Islamic banking and its historical growth. A brief overview of main differences between the Islamic banking and the conventional banking. In addition, references are particularly made to implications arising from the emergence of e-commerce and the realities that the Islamic Shari'ah law has to consider in adopting the new phenomenon into its banking system. This paper shows, whilst the conventional banking and financial system is based on the principle of rationality and interest, the Islamic financial system is based on morality and social justice which prohibits interest as a means of speculation and injustice. The concepts of e-business such as e-commerce and e-banking are acceptable in Islam as since in Islam anything is halal unless prohibited by Shari'ah, dealing with business by internet is considered as Shari'ah compliant. This paper, therefore, provides the latest thinking of e-business from an Islamic viewpoint, thus creating a reference point and valued information for a future research. Also, in testing for the validity of the concepts and characteristics of Islamic e-business, future research may consider empirical investigations using either the published data or conducting surveys of customer' perceptions and views of the experts.

Keywords: E-commerce, E-banking, Islamic Banks, Conventional Banks, Islamic Law, Shari'ah compliant, Islamic E-business

INTRODUCTION

The period when scholars were deeply concerned with jurisprudence of business transactions (*fiqh al-muamalat*) is considered as the heyday of the financial system in Islam. That period started from the days of the Prophet Mohamed until 1492, an era which marked the end of the Andalusian legacy (Millar, 2008). Even today, what is known as *fiqh al-muamalat* features all the laws which organize economic and business relationships between people within the framework of the Islamic financial principles and this provides a strong base for modern business transactions.

Islam, as a religion, has specific implications for business transactions through Islamic law or *Shari'ah* law, which forbids interest (usury) in order to avoid exploitation and unjust dealings, whether the beneficiary is the lender or the borrower. *Shari'ah* law also restricts some business activities which are considered illegal according to Islamic standards. Nonetheless, the general rule in *Shari'ah* is that every economic activity is allowed as long as it does not explicitly contradict *Shari'ah* law (Millar, 2008). On the other hand, Roy (1991), in providing a social justice based perspective states that, by restricting usury (*riba*) and its associated practices the Islamic system tends to protect the poor from exploitation by the rich, which sooner or later would lead to social instability.

Islamic Banking and Finance (IBF) has become popular throughout the globe in recent years after having emerged in the 1970s from the foundational discourse of Islamic moral economy (IME). This is basically a modern way of explaining the rules and guidance related to economic and financial procedures, including contracts and other workable choices. The main principles that maintain and regulate the IBF are enshrined in the Holy Book of Islam, the Qur'an, and other epistemological sources such as *Hadith* and *Sunnah* of the Prophet Muhammad, his sayings and legacy. Therefore, IBF has to comply with these three sources (Asutay, 2010).

Definition of Islamic Banking and Finance

There are several definitions offered for Islamic bank. Al-Magribi (2000) defines an Islamic bank as an economic and social organisation dealing with money and providing banking services to facilitate the flow and investment of money in accordance with Islamic principles. Eagle (2009) defines Islamic banking as being synonymous with full reserve banking while being Shari'ah compliant, which includes the prohibition of the practice of riba, and Al-Rufai (2004) defines an Islamic bank as a banking organisation dealing in interest-free transactions. In other words, Islamic banks neither pay their clients any interest for making deposits nor do they take interest for loans. Furthermore, in referring to the nature of the law they follow, Al-Wadi*et al,* (2014) defines an Islamic bank as a financial organisation, which observes Shari'ah law in all its business and investment transactions. This definition is further referred to by Al-Tayar (1994) who views an Islamic bank as any organisation that performs banking activities on the basis of Shari'ah law.

Islamic banks, hence, are considered unique compared to other banks as they exclude interest from their transactions, and instead social responsibility becomes their main concern as the theory of Islamic moral economy suggests. Hence, overall there are many characteristics of Islamic banking and according to Al-Tayar (1994) and Asutay (2010) the most important are as follows:

(i) Interest-free transactions are unique to Islamic banks;
(ii) They focus on development through investment. Compared to commercial banks, which provide loans for interest, Islamic banks invest in various ways, *e.g*. direct investment or investment through partnership whereby the bank becomes a partner in the business by sharing its profits and losses; thus, IBF operations are marked with profit-and-loss sharing, and hence risk sharing mechanisms;
(iii) The role of money in Islamic banking is not to be created through a credit system, which offers another rationale for the prohibition of interest;
(iv) The principle of profit-and-loss sharing represents an essential part of Islamic banking and finance, in which the entire risk is shared by the lender and investor;
(v) Arising from profit-and-loss sharing is the principle of *shura*, where capital and labour are merged to establish a consultative method of governing the business;
(vi) Consequently, the principle of *gharar* prohibits speculation and gambling in business; hence, in short, IME based on Qur'anic injunction allows trade but prohibits interest.

DIFFERENCES BETWEEN ISLAMIC & CONVENTIONAL BANKING

There are several earlier studies that indicate the differences between Islamic and conventional banks. Hanif (2011) argued that Islamic banking is not true copy of the conventional banking system. In addition, conventional banks increase their assets through interest based banking whereas Islamic banks operate on profit and loss basis. Ryu*et al.,* (2012) recognised that Islamic banks liquidity increased compared to conventional banks during the crisis of 2008. However, Beck *et al.,* (2013) noted that conventional banks might re-draft the products like Islamic banks but this limits the Islamic banks to operate as of conventional banks. Abdul Wahab *et al.,* (2014) offered a comparative analysis of Islamic and conventional finance systems and found that there are significant differences between the two systems. This is due to the role of Islamic finance, however, this act as an alternative to the conventional finance system but cannot be over accentuated and Islamic finance is working under Islamic Law and cannot provide finance for any products prohibited by Shari'ah.

FOUNDATIONAL PRINCIPLES OF ISLAMIC BANKING AND FINANCE

Prior to discussing the Islamic principles, it is essential to understand how Islamic economies work. From the Islamic perspective, all property belongs to Almighty God, and Muslims are obliged to obey the *Khilafa*, and are ultimately accountable to Allah for their assets and how they manage them. In Christianity, a similar idea that corresponds to Islamic law is stewardship (Wilson, 2006). Asutay (2008), while discussing IBF, presents the following as the foundational principles of Islamic moral economy informing IBF:

(i) *Tawhid* is the most important aspect in practising belief in the oneness of God, therefore during economic and financial activities, one must take this into account;

(ii) *Al-adlwa l-ihsan* means that when someone gives something, the receiver must recognize this in her/his heart. It also teaches justice while dealing with money matters in the banks;

(iii) *Ikhtiyar* is a very specific aspect, which means one has the right to return the purchased commodities, and specifically this is concerned with free will;

(iv) *Fard* highlights the responsibilities of the individual during financial and economic activities;

(v) *Rububbiyyah* relates to nourishment and sustenance. Those who deal in Islamic finance must recognize this, and if they do then they are unlikely to become the victims of wrongdoings;

(vi) *Tazkiyah* focuses on those who take part in financial and economic activities dealing with issues with ethical and moral considerations;

(vii) *Khilafa*, is the representative of God, and hence should act in a balanced way.

The understanding of the above activities is not a simple matter and anyone wishing to do so need to be aware of the laws and rules mentioned in both the Qur'an and the Hadith.

As for Islamic finance, it is based on principles featuring Islamic economy defined by Mahmoud (2000) as: "the economy based on the principles of Islamic *Shari'ah* as defined by scholars". These principles should control economic practice between individuals which is a combination of economic behaviours and Islamic moralistic behaviours which favour social welfare (Mahmoud, 2000). In essence the principles may be summarized as follows:

(i) All people are born equal;

(ii) Although people vary in terms of their earnings, everybody has the right to work;

(iii) Apart from the principle of class struggle, people should cooperate with each other;

(iv) Spending of resources should be rational;
(v) The idea of ownership in Islam is socially oriented, which means it aims for the welfare of individuals as well as the society at large;
(vi) Economic freedom in Islam is restricted in a way that favours individuals but at the same time does not harm the society;
(vii) Economic development is encouraged based on the principle of the fair distribution of wealth.

Al-Tayar (1996) on the other hand, indicates that the Islamic economic system seeks *falah* or happiness for all individuals as it is based on the principles of social good and justice with social care and attention to community, mutuality, redistribution and charity. In his view, the Islamic economic system should be based on the following principles:

(i) Private ownership should be allowed for all individuals;
(ii) Every individual has the right to spend his wealth in a way that generates more profit for him, as long as his behaviour is legal and does not in any way go against Shari'ah law;
(iii) The rich have to allocate a certain share of their wealth to help the poor;
(iv) The rich should always be encouraged to spend money for charity with the promise that they will be generously rewarded by God.

According to Mahmoud (2000), the most significant feature of the Islamic financial system is the fact that money should not be hoarded by individuals, but should rather be spent for the welfare of the society. For this reason people are encouraged to develop their wealth as that will be to the benefit of the society through creating jobs. Hence, Islam always makes it incumbent on individuals to observe Islamic principles regarding money in terms of earning, investing and spending. These principles include the following points:

(i) One should not exploit others nor harm their dignity as humans;
(ii) Wealth should circulate rather than remain confined to a few individuals;
(iii) Any surplus should favour the society at large.

The three financial features prohibited by Islamic finance are *riba* (interest), *gharar* (uncertainty, risk, and speculation), and *maysir* (gambling). Islam embraces profit and loss but rejects interest-based economies. Islamic finance satisfies investors and then expects them to invest their money. While encouraging profit, Islam places emphasis on the premise that profits from immoral activities are not allowed (Rehman, 2010).

Shanmugam and Zahari (2009) argue that Islamic banking brings communities together so that people feel ethically and socially equal and take part in its activities. The following form the main principles:

(i) Free from *riba*: The Qur'an states, 'O You who believe! Fear Allah and give up what remains of your demand for usury, if you are indeed believers';

(ii) Risk-and-return sharing: Islam clearly maintains that mutually agreed business/shares is the way to avoid risks, and beyond this it is not permitted;

(iii) Shari'ah-approved activities: Islamic banks only fund those activities in which basic rules remain intact;

(iv) Sanctity of contract: Islam regards the contract as highly important, but it must be signed in the presence of witnesses;

(v) Avoidance of *gharar*: Islamic Shari'ah clearly suggests that open, not hidden trade is allowed. Basically visibility and quality control remain pre-requisite to trading.

In critically reflecting, Asutay (2010) maintains that the last three decades have shown tremendous changes in IBF operations. This fact has been acknowledged by global economic players, including international financial institutions, and refers to the application of basic principles for the customers of Islamic banks. In following in the footsteps of commercialisation, the IBF has seriously looked to increase the efficiency and profitability of its existing projects. In reality, there is an urgent need to shift from the existing paradigm towards the highly trustable, dependable and sustainable future of the IBF, as Islamic finance is no longer seen as an alternative system but has now become part of the global financial system in the form of heterogeneous products.

DEVELOPMENTS AND TRENDS IN ISLAMIC BANKING & FINANCE

As has been highlighted in Shanmugam and Zahari (2009), the first banks ever to be introduced were near the Mediterranean Sea. Records maintained in the temples indicate that Iran was perhaps the first country where dealing in silver was used; and gold was also used in dealing as early as the 4th century. Later, other cultures including Islam, especially under the Ottomans, also contributed towards money transactions. The merchants who used to deal in gold brought about changes in the styles of trading.

The word 'bank' is derived from the Italian word *banco*, which means desk, as in medieval ages cashiers used to sit at desks in public places to buy and sell various currencies (Shubeir, 2007). Banks emerged in association with the banking business in a number of ancient civilizations. Historically speaking, the first legislation that organized the banking business can be traced back to the Laws of Hammurabi in the 18^{th} century BC (Nasseef, 1988). However, some studies point out that the island of Sicily, where most of the people were engaged in the fishing industry, witnessed the first banking business. When the people went fishing they entrusted goldsmiths with their money and valuables in return for a charge. Moreover, those goldsmiths also used to provide loans from the money with which they were entrusted in return for interest (Al-Wadi*et al*, 2014). In this regard the first proper bank was established in 1157 in Venice. That was followed by the establishment of another bank in 1587 in Venice called Banco della Piazza di Rialto, which marked the beginning of the modern banking business (Shubeir, 2007).

The Bank of Amsterdam in Holland was established in 1609 and became a model for most banks in Europe. After that the banking business gradually developed until the Industrial Revolution when significant progress in business took place (Al-Tayar, 1994). According to Al-Tayar (1994) there are two types of bank: 1. Commercial banks: which deal in all kinds of trade as well as cash deposits from individuals and companies; 2. Specialised banks: these are non-commercial banks. The main purpose of such banks is to fund business activities such as housing, agriculture and industry. Accepting deposits is not an important activity of such banks. Islamic banks represent a combination of these two as they are mostly commercial banks, but also specialized due to their particularities regarding commercial transactions, the development of which is presented below.

Islamic Banking: Historical Overview

As opposed to the nature of the historical experience in the West, the financing experience in the Muslim world developed without the institution of banking until the 19th century. The winter and summer trips made by the merchants of Mecca in the 7th century marked the beginning of banking activities in the Islamic era. In the aftermath of those trips various forms of transactions emerged in terms of entrusting and investing money, as people used to put their money and valuables with those who they believed to be trustworthy (Nasseef, 1988). The traditional form of Islamic financing is based on short-term projects and financing; and therefore, there was no need to develop an institution in the form of banking in the Muslim world. However, in the modern era from the 19th century onward, banking as an institution became a central institution diffusing slowly from the centre to the periphery.

With the emergence of Islamic identity in the post-colonial period in Muslim lands, Islamic economics and banking was considered as an essential part of reconstructing the Muslim identity. Debate on the nature of Islamic economics and finance took a positive turn in the 1960s in terms of practical development. Then, in 1963 Egypt witnessed the first attempt at Islamic banking in the form of a social bank established by Ahmed Al-Najar in the town of MitGhamr. However, mainly due to political reasons, the experiment lasted for only three years (Al-Magribi, 2000).

While the 1963 experiment constitutes an important cornerstone in the development of modern Islamic banking, the historians suggest that many decades ago there was an interest-free economy, especially in Muslim areas or countries. An example from the Indian sub-continent can be found where, in the 1890s, Muslims operated an interest-free economy. This was followed by another organisation in India in 1923, and within 20 years its estimated value rose to US$2,240; that bank gave access to customers and provided loans worth US$100-US$135 on a monthly basis. However, there was no bar on non-Muslims becoming members of the bank, and their numbers rose to 1000, and by 1944, it had reserves amounting to US$67,000. The company was lending money at a smaller proportion (Shanmugam and Zahari, 2009).

The trials in the development of Islamic banks went on to include Pakistan and then later Egypt again, with the establishment of the Naser Social Bank in 1971. The Islamic Bank for Development in Saudi Arabia and Dubai Islamic Bank were established in 1974 and 1975 respectively to pave the way for the appearance of modern Islamic banks in commercial form. After that more Islamic banks followed in quick succession (Al-Magribi, 2000). Iqbal and Molyneux (2004) argue that Islamic banks provided an opportunity for Muslims to invest their money in a *Shari'ah* compliant manner, as people expect *halal* returns upon their investments. It should be noted that over a forty year period, Islamic banking expanded, internationalised and has become recognised all over the world, with an asset base of about $2 trillion by 2013, with over 500 major Islamic banks and financial institutions operating all over the world (see: The Banker, 2013).

Asutay (2007) maintains that since its inception forty years ago, the growth of Islamic banking has had a lasting impact on businesses and trading across the globe. Though the industry has grown, it still has not achieved the true aspirations of Islamic economics so that the people can see the difference (Asutay, 2012). However, *Shari'ah* rule, which governs Islamic finance, means that the authenticity of the system cannot be exploited; Islamic economies and financial institutions must be developed in a way that contributes to social justice and development. This further reveals the divergence between Islamic economics and IBF.

IBF Worldwide Growth

Islamic banking has been recognised as the fastest-growing segment of the financial industry, with more than 500 Islamic banks now operating in almost 75 countries (see The Banker, 2013). It is indicated that everyday worldwide participation has reached $180 billion. In addition, its assets are growing 25-40% annually (Eagle, 2009).

Three regions of the world, namely the GCC, South Asia and Southeast Asia have shown exponential growth in IBF, which is the fastest growing industry in the financial markets.

However, in the African region, Sudan is reported to have been suffering from IBF issues since the 1980s. IBF is rapidly taking its place in the financial hubs of Europe and Australia, although it has not had an impact on other parts of the globe (Khan and Bhatti, 2008). Moreover, the availability of services in Islamic banking and finance is growing very fast in both Muslim and western countries. This sector alone reached a value of US$ 660 billion in 2007 with 30% growth annually (Kasri, 2010).

Asutay (2010) notes that it is highly remarkable that the IBF industry, after going through the niche and critical stages, is now classed as a fast growing industry. Its growth can be seen in double digits. Egypt is a clear example, where loans are being given to artisans including small and medium industries. In 1971, the Nasser Social in Egypt was unable to offer loans to small and medium sized industries due to political unrest in the country. In addition, a new experiment was carried out in 1967 in Malaysia where savings were spent upon the pilgrimages. Pressure from Muslim populations forced governments to comply and hence in 1975, the Dubai Islamic Bank, which remains the biggest Islamic bank in the world (apart from the entirely Islamized banking system of Iran), was established, followed by the Kuwait Finance House in 1977.

This trend continued to increase and, in the 1990s, IBF showed unprecedented records of success in many countries of the world. The data shows that by 2009, there was massive increase in IBF which was operating globally in both Arab and non-Arab countries. With a proactive development strategy, worldwide financial institutions and companies recognise Islamic finance and although the world is facing crises every day, including low growth and recessions which cause serious limitations, it is still hoped that IBF will continue to grow in the future.

Table 1 shows regional and global growth changes in terms of comparison between 2007 and 2013. The comparison is based upon the data available in GCC and non-GCC countries, and globally. It shows IBF performance at both regional and global levels. Over the period 2007 to 2013, the figures are indicative of year on year growth at significantly high rates. In particular, the GCC has experienced annual growth rates well in excess of 20% in most years. However, since 2010, the rates of growth appear to have been reduced but are still significantly high.

In short, it can be seen from Table 1 that there has been rapid growth in IBF, across the globe. There could be many arguments for and against, but this clearly highlights a sector, which is quite positive and satisfies criteria determined by the Islamic laws of *Shari'ah.*

Table 1: IBF-Regional and Global Growth Totals ($ M)

	2007	2008	% Change	2009	% Change
GCC	178,129.	262,665.40	47.5	353,237.50	34.5
Non-GCC MENA	176,822.20	248,264	40.4	315,090.50	26.9
MENA Total	354,951.70	510,929.40	43.9	668,328.50	30.8
Sub-Saharan Africa	4708	6662.1	41.5	8369.7	25.6
Asia	119,346.50	86,360.30	-27.6	106,797.30	23.7
Australia/Europe/America	21,475.70	35,105.20	63.5	38,654.80	10.1
Global Total	500,481.90	639,076.90	27.7	822,135.10	28.6
% of MENA total to Global Total	70.9	79.9		81.3	

	2010	% Change	2011	% Change	2012	% Change	2013
GCC	372,484.20	5.5	434,893.10	16.75	404896	22.73	496942
Non-GCC MENA	337,948.20	7.3	416,382.20	23.21	487426	0.48	489755
MENA Total	710,434.00	6.3	851,275.30	19.82	892323	10.58	986698
Sub-Saharan Africa	10,765.10	28.6	13,711.10	27.37	10733	-3.42	10365
Asia	130,904.10	22.6	166,652.80	27.31	208482	19.24	248586
Australia/Europe/America	42,779.50	10.7	53,939.10	26.09	54716	-60.33	21704
Global Total	894,882.70	8.9	1,086,462.90	21.41	1166255	8.67	1267355
% of MENA total to Global Total	79.39		78.35				

ISLAMIC COMMERCE & E-COMMERCE: *SHARI'AH* AND FINANCIAL ASPECTS

According to the Islamic business concept, Muslims must practise basic regulations in any trade. As stated in the Qur'an, "God has permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for God; but those who repeat the offence are Companions of Fire: they will abide therein forever". From this it is clear that Qur'an regards trade and business as lawful and beneficial, both for the individual and for the whole community/society, country/nation, but that it should be fair trade, based on honesty in dealings (Zainul*et al.*, 2004).

E-Commerce and E-Business in Islam

Islam has its own business ethics which govern all aspects of business as well as everyday life. Within the ethical framework of Islam, trade takes place through mutual consent in the market, with an emphasis on contractual certainty, and directly facilitates openness and eliminates ambiguity (Wilson, 2006).

There are many Islamic scholars who have made rulings, taking into consideration the change in circumstances in the banks. These scholars have focused on the problems of the people, and acknowledged the necessity of understanding information technology. IT is becoming relevant to both small and large businesses, therefore to meet the customers' needs the scholars made certain rulings which are in line with *Shari'ah*. By making sure that e-commerce as a model is *Shari'ah* compliant, people in many countries, including Saudi Arabia, can take advantage of technology by using e-commerce banking (Ben-Jadeed and Molina, 2004).

Amin (2008) discusses e-business from the Islamic perspective with particular focus on e-business concepts and the legality of e-businesses, focusing on the Malaysian environment, where he infers that e-business is performed within the framework of *Shari'ah* Islamiyyah. In addition, the he also notes that, in accordance with the religion of Islam, transactions are free from *gharar* and deceit. In addition, Amin (2008) mentions four factors that make Islamic e-business successful. The first refers to *homoIslamicus* (Islamic man) as opposed to *homoeconomicus* (economy man) in expanding Islamic e-business, indicating that being a morally motivated individual is the essence of Islamic business. The second concerns the way in which the business environment can affect Islamic e-business, referring to the importance of large stakeholders in the society. The third relates to the application of rules and regulations, as Islamic e-business must be practised strictly to ensure successful, but most importantly *Shari'ah* compliant, transactions. The last one relates to the role of governments, in that governments should encourage the people to use e-business opportunities due to its safety and, above all because it is without any wrongdoings according to Islam (Amin, 2008).

Hence, in reflecting, e-business is related to trade and under Islamic laws trade is permitted but through clear and visible means. This means it should be dealt with according to Islamic principles. In Islamic business, as the *homoIslamicus* concept suggests, Muslims should be honest, faithful, and God fearing. The Qur'an not only permits and allows individuals to be productive, it also enjoins them to as a responsibility upon Muslims. For example, to avoid any wrongdoings, Islam advocates writing a contract in business in the presence of witnesses (Zainul*et al,* 2004). In addition, people who want to enjoy the benefits of information technology have the opportunity now to remain competitive in the market. There is another impact of e-commerce banking, that trading is equally trusted and its functions clearly target customers across the globe. People's needs are increasing and companies are procuring goods for people simply through accessing web-sites and making payments (E-Banking Rules, 2010).

Due to the recognition of IT in respect to businesses, companies need to have strong rules where Muslims can also obtain similar benefits. Accordingly, the Accounting and Auditing Organization for Islamic Finance Institutions (AAOIFI, 2010) has provided easy and trustable solutions to facilitate e-commerce through e-banking.

Since in Islam anything is *halal* unless prohibited by *Shari'ah*, after lengthy deliberations, dealing with business by internet is considered as *Shari'ah* compliant by the verdict given by *Shari'ah* scholars. Thus, commercial dealing via the internet has been accepted, and consequently, AAOIFI, (2010) established standards, each one labelled by number; for example internet dealing in money matters is standard number 38, under which one can design a business website, with the sole condition that no objectionable materials are used which are against Islam or Islamic laws. One can make a financial contract on the internet by chat or e-mail or by accessing websites. Again there is a pre-condition that it should be *Shari'ah* compliant. Identification can be verified through electronic signatures, with the additional condition that adaptation of signatures should be governed by corporate laws.

One of the most eminent scholars, Saleh (1992), explains how *Shari'ah* law works with the Islamic banking sector. From the Islamic perspective, it is a pre-requisite that each transaction should be fair, free, and balanced, meaning that other laws (national, international, or any banking laws) cannot over-ride *Shari'ah* law or govern the banks. Therefore, it is vitally important that the banks deal according to these conditions. The *Shari'ah* Law of Contract states that the parties involved in any contract are free to understand and implement the ways and procedures presented, which also ensures that no party should suffer due to the *Shari'ah* implications. In addition the law further considers that transactions are protected from *riba* and *gharar*. The legal system fully supports the people and the people are free to take/borrow funds from the banks as has already been exercised by small and large businesses. Over time, various Islamic scholars have declared their support for the introduction of IT in banking, but have made it clear that there is no way of permitting *riba* in transactions.

Zainul*et al*. (2004) whilst studying e-commerce from the Islamic perspective notes that many were not clear about accepting the new technology from the *Shari'ah* point of view. Their view is that Islam gives paramount importance to trade and encourages it; thus, e-commerce is permitted, but must be governed by Islamic laws and regulations.

SUMMARY

In this chapter, IBF has been introduced and examined. The process of adopting *Shari'ah* Law in modern banking and finance has been highlighted, with reference made to its tremendous growth across the globe. It can be seen that IBF is now practised in about 75 countries in the world. Over the years, banking systems have taken advantage of IT systems and introduced services under Islamic governance. Various developments have been introduced by the banking system in terms of banking services, and this has led to the growth of successful Islamic commerce. As for e-commerce through Islamic banking, the banks have made sure that their services are *Shari'ah* compliant, which was a source of debate by Islamic scholars who supported the implementation of such laws.

Based on Qur'anic injunction Islamic finance can be summed up as a system in which trade is allowed but interest, speculation and any form of gambling is prohibited. In short, whilst the conventional banking and financial system is based on the principle of rationality and interest, the Islamic financial system is based on morality and social justice which prohibits interest as a means of speculation and injustice. Finally, it should be noted that the AAOIFI has been very proactive in the adoption and inclusion of the advancement of technology and the number of customers who use the e-banking and e-commerce services offered by Islamic banks is on the increase.

At last, in testing for the validity of the concepts and characteristics of Islamic e-business, future research may consider empirical investigations using either the published data or conducting surveys of customer' perceptions and views of the experts.

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