ISSN: P-2455-0515
E- 2394-8450

Educreator Research Journal

VOLUME–IX, ISSUE –VI NOV – DEC 2022

Original Research Article

ECONOMIC TEACHINGS OF PROPHET MOHAMMAD (SAW) AND ITS CONTEMPORARY APPLICATIONS

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Abstract:

Shariah is all about Islamic laws, Muslims throughout the world follow Islamic rules. Islamic laws are based on the Quran (the book revealed by Allah towards its last messenger Prophet Mohammed (SAW) (peace be upon him) and Hadith i.e., the teachings by its last messenger. Muslims follow shariah principles which covers every aspect of a person's life, business, economic, dealings, culture, character building, etc. The ambit of shariah laws covers from birth to death. The major portion of teaching by the Quran and Hadith is based on dealings (Muamalaat) culture (Muashirat) and character building (Akhlakiyaat). More than 40 years have passed since Islamic banking and finance started. In these four decades, almost all major countries of the world have experienced this system. Islamic Finance in general has developed beyond the boundaries. It is incredibly increasing by leaps and bounds. It can be justified with the help of data. Globally the share of Islamic Finance assets in 2019 with respect to Islamic Banking was about US $ 1993. Interestingly it has spread its wings to 74 countries. The market size of Islamic Banking assets rose to US $ 2 trillion in 2019. The annual growth rate of Islamic Banking assets is 14%. There is a share of 6% of Islamic Banking Assets in total Global Banking Assets in 2019. FinTech is the outcome of 2 terms one is financing and other is technology. With the advent of Islamic Banking and Finance, it is necessary to adopt innovative tools which help the Islamic Banking and finance spread its wings in customized manner. It is a need of the hour that Islamic Finance should incorporate Fintech in its operation. Jarmo Kotilaine, the chief economist at the Bahrain Economic Development Board (EDB) famously summarized: "When it comes to technology, what applies in conventional banking also applies in Islamic banking."

Introduction:

Shariah is all about Islamic laws, Muslims throughout the world follow Islamic rules. Islamic laws are based on the Quran[1] (the book revealed by Allah towards its last messenger Prophet Mohammed (SAW) (peace be upon

[1] Holy Quran is a compilation of the verbal revelations given to the Holy Prophet Muhammad (Peace be upon him) over twenty-three years. The Holy Quran is the Holy Book or the scriptures of the Muslims. It lays down for them the law and commandments, codes for their social and moral behaviour, and contains a comprehensive religious philosophy—the language of the Quran in Arabic.

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him) and Hadith[2] i.e., the teaching by its last messenger and life. Muslims follow shariah principles given every aspect of a person's life, business, economic, dealings, culture, character building, etc. the ambit of shariah laws covers from birth to death. A major portion of teaching by the Quran and Hadith is based on dealings (Muamalaat) culture (muashirat) and character building (Akhlakiyaat). The importance of economic aspect in shariah/Islamic finance is so important that there are many verses which deals with that. For instance, verse on debt o, you who believe! When you contract a debt with one another for a term appointed (Al-Baqarah: 2/282). Another verse relating to unjustified consuming others' wealth: and do not consume one another's wealth unjustified (Al-Baqarah: 188), O you who believe! Do not consume each another's wealth unjustified (in any illegal way) (Surah al Nisa 29). Another verse discusses unjustly consuming the wealth of an orphan "And give orphans their properties, and do not exchange the bad for the good, nor consume their properties by combining them with yours." (Al-Nisa 2) "And do not approach the orphan's property, except to improve it, until he has reached maturity." (Al-In'aam 152)

Interest (Usury)

"Those who consume usury will not rise, except as someone driven mad by Satan's touch. That is because they say, "trading is like usury." But Allah has permitted trading, and He has forbidden usury." (Al-Baqarah 275-278) "O you who believe! Do not eat *riba* (usury), doubled and multiplied, and fear Allah, so that you may be successful." (Al Imran 130)

Fulfilling Commitment

Upright weight and measure:

"And give full weight and full measure, with justice." (Al-In'aam 152)

More than 40 years have passed since Islamic banking and finance started. In these four decades, almost all major countries of the world have experienced this system. In a country like India, where Muslims live in the number of about 80 million, this system is not only unknown, but if analyzed, except for a few percent, the majority are not familiar with the Islamic banking system and a large number of them are not familiar with it. Islamic Finance in general has developed beyond the boundaries. It is incredibly increasing by leaps and bounds. It can be justified with the help of data. Globally the share of Islamic Finance assets in 2019 with respect to Islamic Banking is about the US $ 1993 billion. Interestingly it has spread its wings to 74 countries. Share of Islamic Finance assets is 69% and the number of institutions/instruments is 526. In 2012 the share of Islamic banking assets was just US $1305 billion, which has risen to US $ 1993 billion in 2019. The market size of Islamic size of Islamic Banking Assets rose to US $ 2 trillion in 2019. The annual growth rate of Islamic Banking assets is 14%. There is a share of 6% of Islamic Banking Assets in total Global Banking Assets in 2019.

Table 1.1: The global distribution of *Shariah*-based financial assets in 2018

Islamic Bank	70%	The US $ 1760 Bn

[2] Hadees or Hadith in Islam refers to what most Muslims believe to be a record of the words, actions, and the silent approval of the Islamic prophet Muhammad (Peace be upon him).

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Sukuk	19%	The US $ 470 Bn
Other IFI's	5%	US $ 140 Bn
Islamic Funds	4%	US $ 108 Bn
Takaful	3%	US $ 46 Bn

Source: Vol 4, Issue 1,2020 AAOIFA JOIFA, page 61

Review of literature:

Khatkhatay and Nisar (2007)[3] have analysed and compared three standards set by Dow Jones USA, SEC Malaysia, and Meezan Pakistan to screen stocks to distinguish the *Shariah*-compliant stocks. In conclusion, Khatkhatay and Nisar pressed the need to modify the screening norms to include or exclude companies. Utmost importance should be given to the nature of business criterion, which is the first criterion in almost all screening norms set by different institutions. Further, they emphasised the need to include total assets rather than using market capitalisation as the screening ratio as the former is more suitable than the latter one. Another important aspect highlighted is the purging of interest income. Whether the company pays a dividend or not, interest income earned per share during the holding period should be purged.

Adam and Abu Bakar (2012)[4] discuss the Islamic screening by keenly investigating and analysing that there is no involvement in any unislamic activity. They further analysed that screening can be positive or negative. In contrast, positive screening involves investing in those enterprises that provide necessities to society, while negative screening involves focusing on unethical activities

Imed Medhioub and Mustafa Chaffai (2016)[5] Have revealed that after the Recession of 2008, many investors have turned towards Islamic stocks for better results and to diversify their basket of investment. However, according to them, there exists a similarity between *Shariah* stocks and traditional stocks.

Dhrubajyoti Bardoloi (2019)[6] The study's objectives were 1) To know the level of awareness in respect to the educated Muslim population in Assam regarding *Shariah*-based investment (equity). 2) To evaluate the

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[3] M.H. Khatkhatay and Shariq Nisar (2007), *Shariah* Compliant Equity Investments: An Assessment of current screening norms, Islamic Economic Studies, Vol.15, No.1, 2007

[4] Noor Latiffah Adam and Noor Latiffah Adam, (2012), Sharifah screening process in Malaysia International Halal Conference, PWTC, Kuala Lumpur, Malaysia, 4-5 September 2012, pg no 113-123

[5] Imed Medhioub and Mustafa Chaffai (2016), Islamic versus conventional stock market indices synchronisation, African Journal of Business Management 10 (11), 270,2016.

[6] Dhrubajyoti Bardoloi (2019), " Perception and awareness about shariah laws in making equity investment decisions among Indian Muslims: A case study of Assam," Thesis submitted to Dibrugarh University.

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level of awareness regarding the educated Muslim population in Assam regarding *Shariah*-based equity investment in general. 3) The researcher tried to find out the most important determinants that affect the decision for *Shariah*-based equity finance in Assam amounts followers of *Shariah*. In the above studies, it was concluded that in the four cities of Assam, the Muslim population are less updated or aware of the screening norms of *Shariah*-compliant equity investments. Muslim population are knowledgeable about the standard stock exchange, i.e., BSE and NSE, and to more extent, there is a general tendency that interest is *haram*, i.e., not permissible. The same is the case for Gujarati Muslims (Amin, 2012)[7]

Scope of the study:

The Scope of Islamic finance in India and globally is enormous. The present paper discusses in brief what is FinTech especially in relation to Islamic Finance, what are the challenges and opportunities of fintech in Islamic finance, and to critically evaluate of Islamic Banking and Finance in Modern world. There is a misconception among masses that Islamic finance industry is only for Muslims in general. This is a wrong perception. For example, in Tata Ethical Funds majority of the investors are from Jain communities. Considering this there is a enormous potential in India in general and also globally.

Objectives of the Study:

1. To evaluate the current status of Fintech in Islamic Finance.
2. To discuss the challenges and opportunities of FinTech
3. To critically evaluate of Islamic Banking and Finance in Modern world

Current status of FinTech in Islamic finance:

FinTech is the outcome of 2 terms one is finance and other is technology. With the advent of Islamic Banking and Finance, it is necessary to adopt innovative tools which help the Islamic Banking and finance spread its wings in customized manner. It is a need of the hour that Islamic Finance should incorporate Fintech in its operation. Jarmo Kotilaine, the chief economist at the Bahrain Economic Development Board (EDB) famously summarized: “When it comes to technology, what applies in conventional banking also applies in Islamic banking.” He added: “Using financial technology improves the quality of the banking experience among clients. It influences the speed and accuracy of the experience. Technology makes products more reachable to clients. We’re transitioning toward a situation where growth for companies and economies will have to depend more on productivity than before, to achieve that, you will need better management, better innovations, new distribution channels, and new capital”.

Fintech for Islamic Finance needs to observe Shariah principles. In general, technology is neutral from a Shariah point of view, unless it is used in an instance that directly conflicts with any rulings or requirements of the Shariah (Oseni & Ali, 2019). But, how do we determine which FinTech application requires sensitivity to Shariah requirements? Prof. Akram Laldin, Executive Director ISRA answers this in the following words. “In order to

[7] Amin, U. (2012), Islamic banking in India religious and socioeconomics perspective affecting Muslim investors in Ahmedabad district in Gujarat, International Journal of research in commerce, I.T./Management, vol 2 Issue, page 116-112.

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E- 2394-8450

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VOLUME–IX, ISSUE –VI

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address these concerns, it is important to note that, in general, Shariah principle with regards to a business transaction (Muamalat) is governed by the notion that every transaction is permissible, except when there is a clear text which prohibits it. The permissible principle provides flexibility in innovation and new practices in business and financial transactions. All innovations in Muamalat, are considered as permissible and welcomed. In this regard, innovations in FinTech become impermissible only if there is clear evidence that they are in conflict (against) the basic rules of the Shariah. Therefore, FinTech application and practices, as in traditional Islamic finance, should follow the principles of the Shariah by avoiding the prohibited elements in the transactions such as interest (Riba), gambling (Maysir), uncertainty (Gharar), harms (Darar), cheating (Tadlis), etc. It must be transparent with no hidden cost, irresponsible or unethical financing".

The application of FinTech in a specific Islamic finance product should not be such as to create cripples, mislead, deception/ cheating, hidden costs, nor should it infuse any Riba, gambling, Gharar, or other unacceptable elements such as those that make the sale invalid.

He continued: "Likewise, the practice of transactions in FinTech applications should follow the rules of contract (Aqd) used in the transaction by observing the pillars (Rukn) and conditions (Shart) in the contract. In addition, FinTech application should aim at achieving the objectives of the Shariah (Maqāsid Al Shariah), namely, to realize the benefits (Maslahah) and to avoid the harms and difficulties (Mafsadah and Mashaqqah)"

FinTech was not well-known within the Shariah Finance ambit until late 2015, the success of 2016 and 2017 showed some wonderful achievements. An endeavor by FinTech entrepreneurs in the start of 2016 turned out to be more prudent (Raghu, 2017). The contemporary features from the world are among those which earn acknowledgment.

Challenges and Opportunities of FinTech:

The prospect of FinTech is a dark cloud with silver linings, the major challenges arising from the gyration of FinTech includes regulatory risks, downward pressure on margins and information security.

- If the regulatory aspect is missed, it can lead to missed opportunities/opening in FinTech investments. IFIs and technology players could be seeking regulators as they head towards FinTech for investment. At present the regulatory development for FinTech is at its very initial level, there is a need for discussions and ongoing engagement between regulators, IFIs and FinTech partnerships for creating trust over the new FinTech environment is very necessary.
- For the time being, the huge variety of FinTech and its differentiated business plans make it interesting for controllers to come up with a one-size-fits-all supervisory framework. For this purpose, in-detail dialogs and unvarying meetings and rendezvous between regulators, IFIs, and FinTech partners in the existing early stage of regulatory development are very critical and obligatory for building clarity and a trustful environment.
- Since FinTech companies have an asset-light, digital focus business model, they have a competitive edge over traditional IFIs in terms of costs and scale. There is no need to own information technology themselves; they can rent or subcontract the cloud for operational infrastructures. Thus, these market

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players test the industry by catching business prospects and authorizing participants by offering their services to them.

Critical Evaluation of Islamic Banking and Finance in the Modern World:

Islamic banking and finance institutions want to realize the qualities of shariah finance that maintain social justice, equality, economic prosperity and inclusivity. As a part of total shariah law, shariah finance offers for right linkages between finance and the real business and economy, and as such, may lead to shared prosperity. The helpless global financial market situations mutually in developed and developing economies offer a prospect to Islamic finance researchers and experts to come up with tangible and elongated term solutions as envisioned in the original theory of Islamic economics and finance. The aim can be achieved by appropriately and justifiably connecting banking and finance with business and economy. For this, Islamic banks and financial institutions (IBFIs) have to execute the Shariah essentials of all contracts in letter and spirit. Practically, however, the IBFIs endure to work with the orthodox attitude that caused grave difficulties for the universal and the countrywide economies, and for the manhood as a whole. Over the last five decades, since when the 'financialization' started, the wealth has been siphoned to financial institutions' owners / shareholders. "Banks produce no usable product or any 'wealth', yet their usury robbery almost doubles their net assets (wealth) every 10 years. IBFIs that also started processes about fifty years ago, have been doing precisely the similar and progressively duplicating conservative tools and products focusing on profitability, but overlooking the Shariah compliance in real sense. Thus, they are not in a situation to understand the socio-economic and CSR related objectives. The persons helping in Shariah finance industry, also counting the jurists, essential to learn the requirements of the celestial system with a propensity to change, persist in case of any impediments, and learn from valid criticism. The condition requires thorough regulatory procedures as also any built-in system that might persuade the IBFIs to modify the mindset and to move towards the archetype of risk and reward sharing, expansion of real economy, just dispersal of income among the stakeholders, and shared prosperity. Quite recently, some growth has been observed in terms of *'Value based Investments'* (VBI), predominantly in Malaysia (IFN Asia Report, 2018), and this move has to be respected and supported by the practitioners, regulators, multilateral institutions, Shariah scholars, and the academia. IBFIs prerequisite to move forward to realize the relevant *Maqāsid al* Shariah explicitly adhering's with Islamic rules, profitability, transparency and disclosure; encouraging fair dealing, justice and VBI, leading to socio-economic development and inclusion as per the expanded list (Jasser Auda, 2008).

According to an ISRA research study (No. 97/2017), Shariah banks, though doing business for honest profit, are mandatory to follow *maqāsid al- Sharī'ah*. The significance of CSR related objectives cannot be over-emphasized. Asyraf Wajdi (2013) highlighted that the IBFIs may support social objectives, encourage Shariah values towards their staff, clients and the general public, and donate to the social welfare of the community, encouraging sustainable progress projects and lessening poverty.

Conclusions and Suggestions:

The three important key principles rule Shariah finance: equity, participation, and ownership. These principles infer that in a shariah financial system, financing can only be stretched to productive activities, trade, and real assets—thus it is frequently considered an asset-based financial system. If fully observed with, these principles safeguard suitable leverage and support limit speculation and moral hazard.

Shariah banks functioning any traditional systems don't have access to Shariah compliant tradable short-term treasury instruments to channel excess funds to other Islamic financial institutions. The nonappearance of such tools limits progress, forces banks to hold excessive reserves, and also limits the Reserve bank's capability to conduct monetary policy operations.

Further the impartiality of FinTech is one of its striking features as making the shariah finance framework more present for its users can be carried out without leaving it open to blame or blindly copying the Western system. Furthermore, financial technologies can be utilised with the same achievement in traditional and Shariah -compliant settings. To this end, Shariah finance practitioners are at freedom to select which FinTech elements to integrate or develop in their practice in order to increase their efficacy and inclusion while lasting true to the principles of Islam.

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Cite This Article:

*****Dr. Ashfaq Ahmad Khan & ** Dr Mohammed Mukhtar Khan, (2022).*** *Economic Teachings of Prophet Mohammad (SAW) and its Contemporary Applications*, ***Educreator Research Journal, Volume–IX, Issue– VI****, Nov –Dec 2022, 61-67.*