Foundations of Islamic Banking & Finance
1. **Title**

   Foundations of Islamic Banking & Finance (IBF1)

2. **Start date**

   Valid for study sessions commencing from 1 November 2011

3. **Level of module**

   Level 4 FHEQ

4. **Number of credits**

   15

5. **Status**

   Optional module within Professional Certificate in Banking

6. **Recommended prior modules**

   Financial Markets & Risk (within first 60 credits)

7. **Programmes of study to which module contributes**

   Professional Certificate in Banking

8. **Intended subject specific learning outcomes**

   On completion of this module students will be able to:

   a) Describe the origins and development of Islamic Banking and Finance
   b) Comment on the central role of Islam in terms of law, ideology, ethics, moral values etc in determining Islamic economic theory and the provision of Islamic financial services
   c) Explain the Islamic interpretation of socio-economic concepts such as wealth, ownership, prosperity etc and the consequent impact upon economic theory and financial services
   d) Understand some of the fundamental principles of Islamic Banking and Finance, such as the prohibition of Riba, the issues of uncertainty (gharar), and the relationship between interest and profit, and describe the consequent effect in terms of contractual obligations
   e) Compare and contrast the approaches taken by Islamic Banking with those adopted by conventional western financial service providers, in terms of economic theory, financial services provision, banking regulation and the underpinning drivers.

9. **Intended generic learning outcomes**

   On completion of this module students will be able to demonstrate achievement of the following generic learning outcomes:

   1. ability to learn through reflection on practice and experience
   2. ability to work with complex material
   3. ability to analyse problems and identify appropriate solutions
   4. ability to work and study independently and utilise resources effectively

   These intended generic learning outcomes contribute to the following programme learning outcomes: 1, 2, 4, 6.
10. Syllabus overview

This module has been designed to provide students with a good introductory level of knowledge and understanding to ensure that they are familiar with all the major issues relating to Islamic Banking and Finance.

The syllabus provides a wide-ranging introduction to the subject, beginning with an introduction which provides a background to the growth in recent years and the reasons why this is important. Students are then provided with an introduction to the following topics: the ideological background, Islamic economic theory, the concept of ownership and wealth under Islamic law and the relationship between prosperity and Islamic economic theory.

The prohibition of Riba (interest) is examined in some detail as this is fundamental to an understanding of this subject of Islamic Banking and Finance. The issue of uncertainty (gharar) is introduced and the important difference between interest and profit is considered.

The module goes on to consider in outline the main contract used by Islamic banks.

Finally, the regulatory aspects are considered.

(The religious aspects will be considered wherever necessary but it should be noted that this is a module about Islamic Banking and Finance and not about an understanding of Islam generally).

11. Methods of delivery

There are three approved modes of study for the module: through approved centres and by web supported learning with the option of workshops. Each student enrolled on the module will have access to the MyifsILE environment and the ifs KnowledgeBank learning resources.

Web supported learners

Web supported learners will be given access to a web tutor for each module and the ifs learning support team.

Web supported learning with workshops

Students can choose to register for two enhancement workshops delivered by ifs approved Associate Lecturer’s at appointed locations (subject to demand).

Academic centre learners

Students enrolled for the academic centre mode will be provided with the same access to the general induction and learning materials as distance learners.

Total learning hours: 150.
## Learning Materials

Students will be provided with access to my ifslerning (our secure learning environment) that provides access to relevant materials and support for each module. Links to appropriate readings are available from ifs KnowledgeBank, our e-library.

### Reading

The recommended reading for the module is the *ifs* text.

## 12 Assessment

A single two hour examination comprising of eight compulsory short answer questions.

The total marks available for this assessment is 40

The pass mark for this module is 40% (16 marks)

The grade awards are as follows:

- Distinction: 70%-100%
- Pass: 40%-69%

You may use a scientific calculator but it must not be programmable, nor have a wireless-communications capability, nor be capable of storing textual information. It must also not require a mains electricity supply. Calculators with any further functions are not allowed in the examination room.
13. Syllabus

1. An introduction to Islamic Banking and Finance
This section considers the evolution of Islamic Banking, introducing the elements that have contributed to its current presence on the international stage.

Learning areas include:
- The genesis of Islamic Banking and Finance.
- The elements that facilitated the development of Islamic Finance.
- Islamic Banking on the international stage.

2. The sources of Shariah Law and their influence on the principles of Islamic Finance
This section introduces the main sources of Islamic Finance principles which underpin Islamic Finance practices. It explores the relative importance of the main sources of Islamic law and how they influence Islamic Banking and Finance.

Learning areas include:
- The primary sources of Islamic Finance principles.
- The secondary sources of Islamic Finance principles and their contribution to the development of the main Islamic financial products.

3. Conventional Economic Theory
This section introduces the key elements and approaches within the main economic systems which operate around the world and differing role of banks and financial institutions within each system.

Learning areas include:
- The nature and aims of the ‘market economy’ and the implications for banking and finance.
- The nature and aims of the ‘command economy’ and the implications for banking and finance.
- The main characteristic of the ‘mixed economy’.

4. Islamic Economic Theory
This section introduces Islamic economic theory as the foundation upon which Islamic Finance has developed. Noting the heavy reliance on moral values and the impact upon it of the ethical considerations of Islamic law. It then explores how these are reflected in the Islamic Banking system.

Learning areas include:
- The key principles of Islamic economic theory.
- The mechanisms used within the Islamic economic model to ensure the implementation of its key principles.
- The importance of ethical influences within Islamic economic theory and the implications for Islamic Finance.
- A comparative view of western ethical banking and Islamic Banking.
5. **Islamic economic theory and conventional economic system: A comparative overview**

Building upon the key principles introduced in the previous section, the emphasis here is on examining the main features of the Islamic economic model in terms of the two main conventional economic systems.

Learning areas include:
- The economic reality of the early Islamic state and the evolution of the Islamic economic model.
- The concept of wealth and ownership within Islamic economic theory.
- The role of the ‘market’ as an economic tool within the Islamic economic model.
- The role of the state and the degree of economic freedom provided by the Islamic economic system.

6. **The core principle of Islamic Finance; the prohibition of interest.**

This section focuses upon the prohibition of interest within Islamic Finance. It explores in some detail the concept of ‘Riba’ along with its religious and economic justifications, and investigates the implications of the prohibition of interest in the context of Islamic banking.

Learning areas include:
- The origins of the prohibition of interest.
- Riba in the Quranic context.
- Riba in the Prophetic sayings.
- Types of Riba.
- The economic justification for the prohibition of interest.

7. **The prohibition of uncertainty (gharar) in Islamic Financial transactions**

This section focuses upon the prohibition of uncertainty within Islamic Finance. It explores the reasons why uncertainty is prohibited and the consequent implications for Islamic Finance.

Learning areas include:
- The meaning of gharar and the source of prohibition.
- A comparative overview of riba and gharar.
- The application of the prohibition of gharar in the context of Islamic Banking.
- Types of gharar.
- The impact of gharar on the validity of contracts.
8. An introduction to the main types of Islamic Financial products used by Islamic Banks

This section introduces the two main types of financing through intermediation (mudaraba agreement) and transaction (equity participation and assets backed transactions) used in Islamic Banking - these approaches will be explained in outline here but are considered in detail in a separate ifs module. It then continues to consider the difference within Islamic Banking between the concepts of ‘interest’ and ‘profit’ in order to understand how these contracts are different from the conventional financial models.

Learning areas include:
- The main forms of arrangements used by Islamic Banks as alternatives to conventional financial contracts
- The difference between profit and interest.

9. Banking Regulation and Risk

This section addresses the issue of regulation within Islamic Banking and explores the additional requirements placed upon Islamic banks, above and beyond conventional regulation, given that Islamic Banks also need to comply with Islamic financial rules.

Some of the additional governance structures required to meet the Islamic financial rules are introduced as are the impacts of certain types of risk in the context of Islamic Banking.

Learning areas include:
- The structure of Islamic Banks and the related governance issues.
- The risks that Islamic banks are exposed to in the course of their business.
- The need for banking regulation.