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Credit rate in Islam

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ABSTRACT

The topic is about credit rate in Islamic banking. The credit rate is actually meaning that the purchasing of a good or commodity at a specific rate and then they are going to sell the specified commodity at different price to the customer mean charging some interest on the customer, the interest which is charge from the banker to the customer is strictly prohibited in Islam. The objective of the study is going to find out the perception of people toward credit rate, to find out if the credit rate is strictly prohibited in Islam, to find out the influence of socia-economic and demographic factors on the perception toward the credit, these are the objectives which are circulated in the topic. The research methodology is on the base of data which is collected the primary data through questionnaire from the different countries respondents the sampling area is the international students of Chandigarh University how are studying in different field of education departments of the university. The overall research is going to indicate that credit rate is going to affect to demographic and social culture of the people and the country who are doing the credit rate for the purpose of the profit but actually they are doing the loss because Allah said in Quran (the one how is doing credit rate they think that they are doing profit but actually they are not doing profit they are doing loss and the hell is waiting for them).

Keywords— Credit rate, Profit, Bank rate

1. INTRODUCTION OF CREDIT RATE IN ISLAM

Islamic banking, otherwise called non-enthusiasm banking, is a financial framework that depends on the standards of Islamic or Sharia law and guided by Islamic financial aspects. Two central standards of Islamic banking are the sharing of benefit and misfortune, and the forbiddance of the gathering and instalment of enthusiasm by loan specialists and financial specialists. Islamic law disallows gathering interest or "riba".

Islamic banks are ending up progressively essential around the world and now work in similar spots that traditional banks do. Like regular banks, Islamic banks do every one of those capacities expected of a money-related foundation and help the business world by giving administrations required to run an economy easily. In every part of each country people want to make the transformation of money from the saver to investor "simply we can say from the banker to customer" hence there is some cost of transformation which the save expect from the user or investor for making the live standard of himself and other people in the society. Hence there are some financial intermediaries which are going to reduce the transaction cost of the fund which is transfer from the saver to the investor.

These intermediaries are included such as "commercial banks, investment banks, stockbrokers, pooled investment fund, and stock exchange" these are the intermediaries which are going to reduce the risk of the investor for doing the investment in different areas of the business. But in another way, the financial intermediaries has some missing in of maturity between the saver and the investor of the fund, because of their high-interest rates in the delivering of a fund or in the borrowing of the fund.

Hence to eliminate the missing between the saver and investor are preferred to the financial banks for debt, and when the banks provide us with the debt they are charging some interest on that debt to be paid within a specific period of time. But Islamic banks are not taking interest in the specified amount of debt which they provide to the customers, because of this that interest is strictly prohibited in Islam.

Actually, the Islamic banks are going to make services on the basis of sharing of the profit and loss with the customers to reduce the risk and make the facility for the investor till its succession of the business in different stages of the business regarding their policy and procedure.

The sharia is not going to make the imbalance between the borrower and the lender who are involving in the banking (the banker and the customer), sharia want to not force on the customer for making the interest on the borrowed amount of money of which they are deal both the parties should make the relevant way of creating balance between the parties (customer and banker).

according to my introduction to the interest rate is the difference of amount between the customer and the banker is the credit rate But the amount which is charge from the bank to the customer is prohibited in Islamic sharia Islam said that there should not be charged extra amount to the customer rather than the service charges.

2. LITERATURE REVIEW

As an option, premium free procedures have been created by Islamic banks, the fundamental purpose behind the twentieth-century re-improvement and development of the Islamic banking Framework is the traditional financial framework's dependence on intrigue based financing (Presley, 1988).

Islam denies working with riba or usury/intrigue, the denial of premium implies that Islamic banks can't cause or gain enthusiasm for any of their monetary exchanges Karim (1996).

Islamic banking is known for its advantage free idea and works in numerous nations Counting Bahrain, Pakistan, Jordan, Iran, Sudan, United Kingdom, Singapore, Malaysia, UAE and so forth, Islamic banking and money has experienced quick change and development From an industry endeavoring to fulfill the Muslim people group needs, to a multibillion-dollar Industry maintaining Islamic standards, Over late decades the Islamic financial industry has risen as one of the quickest developing enterprises and has spread to all edges of the globe, getting wide acknowledgment from Muslims and non-Muslims (Iqbal and Molyneux, 2005).

Al-Harran (1993) defined the concept of partnership in Islamic finance and discussed its historical background. He explained different types of partnership and its practices focusing on the management issues like the distribution of profit, liability of loss, withdrawal of members etc. He also described the modes of equity investment in Islamic finance, He furnished some suggestions which must be followed to convert the interest based financial system to equity-based financial system.

Haron (1997) provides the overview, philosophy, history and regulation of Islamic banking and finance, He mentioned different types of Islamic financial products including Musharakah or partnership.

Sheikh (1990) in his paper "Towards Interest-Free Banking" presented the TMCL display which depends on the fundamental thought that in a credit course of action, both the measure of credit and time to development are similarly essential. In this manner, if the measure of any credit is increased by the period for which it is broadened, the outcome would be a unit, for example, advance esteem (LV). In this manner a measure of Rs. 1000 for one year, has a similar credit an incentive as Rs.125 for eight years, for example, both aggregate up to a similar credit estimation of Rs.1,000. In this manner, any mix of giving reciprocal advances whereby the advance esteem stays the same is in congruity with Islamic standards as it will fall in the domain of Qard-e-Hasan. Consequently, on the off chance that a borrower needs a credit of Rs.1,000 for one year, he can give away an advance of Rs.125 for a long time and get an advance of Rs.1,000 for one year.

The increased standard is considered as the reward of the hazard for finance. In the assembly of assets, Islamic banks rely upon four primary sources including investors' assets, current records, venture records and bank accounts (Karim, 1996).

Islamic banking is known for its advantage free idea and works in numerous nations counting Bahrain, Pakistan, Jordan, Iran, Sudan, United Kingdom, Singapore, Malaysia, UAE and so forth, Islamic banking and account has experienced fast change and development from an industry endeavoring to fulfill the Muslim people group needs to a multibillion-dollar industry maintaining Islamic standards, Over late decades the Islamic financial industry has developed as one of the quickest developing enterprises and has spread to all sides of the globe, getting wide acknowledgement from Muslims and non-Muslims (Iqbal and Molyneux, 2005).

3. OBJECTIVES

- (a) To find out the perception of people toward credit rate.
- (b) To find out if the credit rate is strictly prohibited in Islam.
- (c) To find out the influence of social-economic and demographic factors on the perception toward the credit.

4. RESEARCH METHODOLOGY

4.1 Data

The data which I collect is the primary data through questionnaire from the different countries respondents. The data which is collected is throughout the questionnaire and the questionnaire is totally made through the objectives of the research on which the research is circulated and are going to make the relationship of the questions and the respondents of the particular questions. The respondents made and observe the ideas regarding their observation and thoughts of the knowledge of which they have regarding the credit rate in Islam.

4.2 Sampling

The sampling area is the international students of Chandigarh university how are studying in different field of education departments of the university the data is process and analysis under the (chi square test) and process under the SPSS program. The sampling is occurred in the particular area of the Chandigarh university environment and completing the overall value and observation of the specified questions in a proper minor regarding their perception and collection.

4.3. Sampling size

The size of the sample is (50) students who are completing and attaining the overall questions regarding their value and perception. The size of the sample is going to make the overall collection of the data which is being good and perfect for the making of the perception and communication of the coordination regarding the research with the researcher and investigation of some uniqueness of something special.

4.4 Process of research

On the basis of my literature review and objective which I made the questionnaire in different aspects of the credit rate in Islamic banking (Islamic banking is the process of investment of sharing the profit and loss between the investor and the customer). The data is collected and analysis on the basis of the following data and questions are made and distributed on the social media and a private message for the different category of the students who know about the credit rate. The test that is applied to the data is chi square test because on the size which is more than 30 ($n > 30$).

5. DATA ANALYSIS

5.1 Is the public aware of the credit rate?

Table 1: Credit rate

		question1						Total	
		agree	moderately agree	strongly agree	disagree	moderately disagree	strongly disagree		
Country	afghanistan	Count	1	5	2	5	0	2	15
		Expected Count	2.1	3.6	3.3	3.0	.9	2.1	15.0
	bangladesh	Count	1	1	1	3	1	1	8
		Expected Count	1.1	1.9	1.8	1.6	.5	1.1	8.0
	nepal	Count	1	1	3	1	0	2	8
		Expected Count	1.1	1.9	1.8	1.6	.5	1.1	8.0
	bohtan	Count	1	3	1	1	0	1	7
		Expected Count	1.0	1.7	1.5	1.4	.4	1.0	7.0
	naygeria	Count	1	2	1	0	2	0	6
		Expected Count	.8	1.4	1.3	1.2	.4	.8	6.0
	india	Count	2	0	3	0	0	1	6
		Expected Count	.8	1.4	1.3	1.2	.4	.8	6.0
Total		Count	7	12	11	10	3	7	50
		Expected Count	7.0	12.0	11.0	10.0	3.0	7.0	50.0

The crosstab is going to analysis that how much respondents agree, strongly agree, neutral, disagree, strongly disagree, according to the valuation of the crosstab of the data is going to show us how is the significant value of the respondents.

Table 2: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.685 ^a	5	.245
Likelihood Ratio	6.726	5	.242
N of Valid Cases	50		

Table 3: Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	.366	.245
	Cramer's V	.366	.245
N of Valid Cases		50	

9 cells (75.0%) have expected count less than 5. The minimum expected count is 1.14.

The chi square test table is going to show us how many respondents are in the chi square test, how many of the respondents are in the likelihood ratio and also going to show the number of valid cases of the respondents. Of which (75.0%) have expected count less than 5. The minimum expected count is 1.14.

The symmetric measure is going to measure the summer of the collected data on the basis of the respondent's selection and the number of respondents of the research.

5.2 Give your opinion on the following statement

Table 4: Opinion table

S no.	Particulars	Agree	Strongly Agree	Neutral	Disagree	Strongly disagree
1	It leads to creation economic balance.					
2	It leads to the welfare of society.					
3	It leads to the generation of capital.					
4	It minimizes the chances of inflation.					
5	Exploitation.					
6	Imbalance of society.					
7	Apply the pareto principles.					
8	Help in inflation.					

Table 5: Credit rate

			question2					Total	
			agree	moderately agree	strongly agree	disagree	moderately disagree		strongly disagree
Country	afghanistan	Count	1	5	3	1	4	1	15
		Expected Count	.9	4.2	4.5	1.5	3.0	.9	15.0
	bangladesh	Count	1	2	1	1	3	0	8
		Expected Count	.5	2.2	2.4	.8	1.6	.5	8.0
	nepal	Count	1	4	1	1	1	0	8
		Expected Count	.5	2.2	2.4	.8	1.6	.5	8.0
	bohtan	Count	0	0	4	1	1	1	7
		Expected Count	.4	2.0	2.1	.7	1.4	.4	7.0
	nigeria	Count	0	1	4	1	0	0	6
		Expected Count	.4	1.7	1.8	.6	1.2	.4	6.0
	india	Count	0	2	2	0	1	1	6
		Expected Count	.4	1.7	1.8	.6	1.2	.4	6.0
Total		Count	3	14	15	5	10	3	50
		Expected Count	3.0	14.0	15.0	5.0	10.0	3.0	50.0

The crosstab is going to analysis that how much respondents agree, strongly agree, neutral, disagree, strongly disagree, according to the valuation of the crosstab of the data is going to show us how is the significant value of the respondents.

Table 6: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20.361 ^a	25	.728
Likelihood Ratio	24.666	25	.481
N of Valid Cases	50		

a. 36 cells (100.0%) have expected count less than 5. The minimum expected count is .36.

The chi square test table is going to show us how many respondents are in the chi square test, how many of the respondents are in the likelihood ratio and also going to show the number of valid cases of the respondents. Of which (100%) have expected count less than 5. The minimum expected count is 36.

Table 7: Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	.638	.728
	Cramer's V	.285	.728
N of Valid Cases		50	

The symmetric measure is going to measure the summer of the collected data on the basis of the respondent's selection and the number of respondents of the research.

5.3 Is Islam really prohibited from credit rate?

1. Agree 2. Strongly agree 3. Neutral 4. Disagree 5. Strongly disagree

Table 8: Credit rate

			question3				Total	
			agree	moderately agree	strongly agree	disagree		moderately disagree
Country	afghanistan	Count	3	2	6	1	3	15
		Expected Count	1.5	3.6	6.0	2.4	1.5	15.0
	bangladesh	Count	0	2	6	0	0	8
		Expected Count	.8	1.9	3.2	1.3	.8	8.0
	nepal	Count	1	2	4	0	1	8
		Expected Count	.8	1.9	3.2	1.3	.8	8.0
	bohtan	Count	1	3	0	3	0	7
		Expected Count	.7	1.7	2.8	1.1	.7	7.0
	nigeria	Count	0	2	1	2	1	6
		Expected Count	.6	1.4	2.4	1.0	.6	6.0
	india	Count	0	1	3	2	0	6
		Expected Count	.6	1.4	2.4	1.0	.6	6.0
Total		Count	5	12	20	8	5	50
		Expected Count	5.0	12.0	20.0	8.0	5.0	50.0

The crosstab of the table is going to show us the number of the respondents are agree, strongly agree, neutral, disagree, strongly disagree. According to this classification of the collected data is going to manage and classify the data.

Table 9: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	24.905 ^a	20	.205
Likelihood Ratio	31.933	20	.044
N of Valid Cases	50		

a. 29 cells (96.7%) have expected count less than 5. The minimum expected count is .60.

The chi square test table is going to show us how many respondents are in the chi square test, how many of the respondents are in the likelihood ratio and also going to show the number of valid cases of the respondents. In which the (96.7%) have expected count which is less than 5. The minimum expected count is 60.

Table 10: Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	.706	.205
	Cramer's V	.353	.205
N of Valid Cases		50	

The symmetric measure is going to measure the summer of the collected data on the basis of the respondent's selection and the number of respondents of the research.

5.4 Are you aware of the following alternatives of credit rate?

- (a) Base rate (BR).
- (b) Shearing profit in loss trading.
- (c) Corporative investment.

			question4						Total
			agree	moderately agree	strongly agree	disagree	moderately disagree	strongly disagree	
Ageinyear	22.00	Count	1	7	6	0	0	0	14
		Expected Count	2.2	4.5	4.2	2.0	.3	.8	14.0
23.00	Count	2	2	4	4	0	0	12	
	Expected Count	1.9	3.8	3.6	1.7	.2	.7	12.0	
24.00	Count	3	2	1	1	1	2	10	
	Expected Count	1.6	3.2	3.0	1.4	.2	.6	10.0	
25.00	Count	2	5	4	2	0	1	14	
	Expected Count	2.2	4.5	4.2	2.0	.3	.8	14.0	
Total	Count	8	16	15	7	1	3	50	
	Expected Count	8.0	16.0	15.0	7.0	1.0	3.0	50.0	

The crosstab is going to analysis that how much respondents agree, strongly agree, neutral, disagree, strongly disagree, according to the valuation of the crosstab of the data is going to show us how is the significant value of the respondents.

Table 12: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	21.045 ^a	15	.135
Likelihood Ratio	21.992	15	.108
N of Valid Cases	50		

a. 24 cells (100.0%) have expected count less than 5. The minimum expected count is .20.

The chi-square test table is going to show us how many respondents are in the chi-square test, how many of the respondents are in the likelihood ratio and also going to show the number of valid cases of the respondents. In which the (100%) have expected count which is less than 5. The minimum expected count is 20.

Table 11: Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	.649	.135
	Cramer's V	.375	.135
N of Valid Cases		50	

The symmetric measure is going to measure the summer of the collected data on the basis of the respondent's selection and the number of respondents of the research.

6. CONCLUSION

- The total data which is collected on the base of the primary data through the questionnaire which is published through the social media and private message in the campus of Chandigarh University of international students and their respective departments.
- The data which is collected is going to indicate that the credit rate is strictly prohibited in Islam and going to generate the imbalance between the residents and society because of its bad effects on the population of the society and also going to effect on the non-organizational departments of the finance.
- The data which is collected for the research is going to indicate that the credit rate is affecting the social, cultural, geographical and economic situation of the country.
- That is way mostly the European banks are going to implement the Islamic banking system in their countries because of its good and perfect result of the last two decade in the world banking system.

- The Islamic banking system is going to eliminate the poverty in the world and bring the balance between the population of the society or the country of which each and everyone is going to pay the same amount to the same business or pay the same amount of money to the commodity at which the commodity is purchased in the market.
- The Islamic banking is growing very fast since the last three decades because of its high performance and good services to the customers of the banks for the purpose of lending and borrowing of money from the banks for the investment and for the purpose of generating the profit in the business.
- The purpose of the Islamic banking system is that making the sharing of profit and loss between the banker and the customer of the bank (sharing of risk between the borrower and lender) because of the making the balance between the lender and borrower of the banks.
- The sharing of risk is on the basis of the performance of the business if the business is going to do the profit or loss the bank has the same ratio of the sharing of profit and loss between the lender and the banker of the bank.

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