



POSTGRADUATE ISLAMIC STUDIES NETWORK SERIES WORKSHOPS

ISLAMIC FINANCE

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ABSTRACT

Legal Debates on Islamic Financial Instruments

Islamic financial products and services have been widely offered by Indonesian Islamic banks and Islamic business units. It is argued that Indonesian Islamic financial scholars produce financial instruments that are almost identical to conventional finance and frequently cost roughly the same as conventional bank products. The main difference being that they are technically satisfying an Islamic principle that prohibits interest. The issue here is whether Islamic banks can co-opt the Islamic groups that criticize Islamic finance for violating the pure intent or ‘substance’ of Islamic bans against *riba* (interest); and whether they can remain competitive if the products offered are limited to the early theoretical risk-sharing models of Islamic banking. Also, whether theoretically ideal products could provide value for banks’ shareholders and customers and meet the modern needs of business and the community. The author rejects all sceptics’ perception which claims that Islamic products

might contain *riba*. Instead, author suggests that the middle ground approach is possible to solve the difference between classical and contemporary scholars on the question of whether the taking and receiving of interest on ‘modern’ loan contract is permissible. It should be recognized in the academic circle that in contemporary Islamic finance, the Islamic financial products are being modified to meet virtuous solution (*maslahah* – public interest) that is at least universally agreed by Islamic scholars and still retain a distinctively ‘Islamic’ character.

BIOGRAPHY

Romi Setiawan is a PhD candidate in the School of Law at Western Sydney University. He is an awardee of MORA Scholarship from the Ministry of Religious Affairs, Republic of Indonesia. Romi is a Lecturer in Islamic Banking and Finance at the State Institute of Islamic Studies, Bengkulu, Indonesia.

