

**Al-Saudia Virtual Academy**  
**Pakistan Online Tuition – Online Tutor Pakistan**

**COMPARISON BETWEEN ISLAMIC BANKING AND INTEREST-BASED (INTERNATIONAL) BANKING**

The real aims and objectives, establishing Islamic banks are to put the Islamic economic system into practice through banking and financial institutions. These banks operate within the framework of Shariah and their systems and their systems and procedures are tailored to meet the challenges posed by the present complex and competitive market. At present, there are about 100 Islamic banks and financial Institutions in different parts of the world.

**COMPARISON**

**Interest-Based (International) Bank:**

The main objective of an interest-based bank is to maximize profits through banking activities mainly lending.

1. Smaller numbers of borrowers have been greatly benefited at the cost of large number of depositors. These banks generally act in the interest of their major clients due to their high credit rating.
2. Imbalance has been created in various sectors of the economy, because the flow of credits is largely connected with the income generated from the advances, even ignoring the priority sectors.
3. Contribute to create inflationary tendencies.
4. Banks are harsh when the borrower suffers losses or the value of security is depreciated, but they soften the terms of advances when the borrowers are prospering.
5. The wealthiest and most powerful capitalist operates through banks.

**Islamic Banks:**

1. Contribute towards economic development and prosperity within the doctrine of Islamic justice and offer an alternate financial system, which steers clear of interest.
2. Pass on the profits earned by entrepreneurs from bank financing to a much larger number of depositors/investors who place their funds with them.
3. Restrict financing to activities, which are ethical and socially desirable.
4. Check inflation and create the capacity to absorb shocks in recession.

5. Sympathize with those who most need funds or are in temporary distress or who suffer business losses. This is done by profit and loss sharing, Zakat and beneficent loans.
6. Operate for maximization of profit by within the frame-work, as Islamic banks are also profit oriented and not charitable organization.

The example of any major International Bank the huge amounts that are collected from millions of depositors are given to a few thousand borrowers who generally earn substantial profits from these funds. The rate of interest charged by the banks from these borrowers is also quite high. The profits earned by the businessmen or industrials who take loans from the banks, as also the profits earned by the banks are not passed on to the millions of depositors. In many cases the borrowers are also the owners of banks. They therefore, have butter on both sides of their cake. This situation is unacceptable to Islam, which says that profit earned from bank finance must also be passed on and shared with the depositors so that social justice is ensured.

**Note:**

Interest based system of banking is now centuries old and has developed over years on the basis of research and experience Islamic Banking system has however, yet to mature and undoubtedly, future will be important to witness its success and glory coupled with service and satisfaction of humanity.