Differences between Islamic Banking and Conventional Banking Offerings

DEPOSITS & LIABILITIES:

CONVENTIONAL BANKING	ISLAMIC BANKING
CURRENT ACCOUNT	
No specific underlying mode is used in Current Account.	Current Account is based on Qard contract where the Bank is liable to pay depositor's money back on demand.
No Shari'ah based restriction on investment of funds.	Funds are invested in Shari'ahcompliant-avenues.
Free of cost services are offered to customer which is tantamount to interest.	Free of cost services are offered to all customers across the board including current and saving accountholders.
SAVING ACCOUNTS & TERM DEPOSITS	
The relationship between Bank and Account holder is based on Debtor and Creditor.	Mudarabah contract is used for saving accounts whereby depositor (Rab ul Maal) provides funds and Bank (Mudarib) invests funds in Shari'ah-compliant modes.
The Bank can use these funds for investment and other purposes regardless Shari'ah prohibition.	The funds deposited will be invested in an investment pool; investment /deposit / transfer-in of funds will be deemed purchase of investment share in the respective investment pool and withdrawal / encashment / premature encashment of funds are deemed to be sale of investment share in the said investment pool.
Mark-up is predetermined.	Profit rates are not predetermined. Profit from mudaraba is distributed on the basis of pre-agreed profit sharing ratio and weightages.
Pays mark-up to account holders even if Bank incurs a loss.	Loss is borne by depositor (Rab-ul-Maal) proportionate to their investments.

LONG TERM FINANCINGS:

CONVENTIONAL BANKING	ISLAMIC BANKING
TERM FINANCE/MUSHARAKA	
Conventional banks offer long term lending facilities to their clients to fulfil their cash requirement on the basis of loan contracts where the relationship between the Bank and client is that of lender and borrower respectively. Conventional Banking Loan contracts Characteristics: 1. No risk of underlying assets 2. Income through Interest 3. Late Payment charges on delayed payments and shall constitute bank's income.	DM is based on Shirkat-ul-Milk (Joint ownership) and is a type of co-ownership in which two or more persons share the ownership of a tangible asset in an agreed proportion and one of the co-owners undertakes to buy the proportionate share of the other co-owner through periodic installments until the title to such tangible asset is entirely transferred to the purchasing co-owner.
LEASING/ IJARAH	
Rentals are charged from the lessee even before the asset is delivered to the lessee.	Rentals start after the delivery of asset, not from the day the price has been paid by the Bank.
Expenses incurred in the process of purchase of asset are paid by the customer.	Bank is the owner of the asset therefore it is liable to pay all expenses incurred in the process of its purchase.
Lease does not differentiate between wear & tear or losses caused by the negligence of Customer. The Customer is liable for cost incurred due to natural disasters.	The Customer is responsible only for misuse and negligence, but not for events beyond control. In Ijarah, each situation is treated separately.
All the liabilities of the leased asset are borne by the lessee.	Shari'ah only imposes the liabilities on lessee which are regarding the usage of the asset.
Penalty charges are taken from Customer on late payment. They are taken as income by the Bank.	The customer undertakes to pay charity for every late payment. It is credited into charity account, for further disbursement to charitable organizations.
In a lease agreement it has been noticed that unrestricted power has been given to the Bank to terminate the lease unilaterally.	If the Customer breaks any term of the agreement, Bank has a right to terminate Ijarah unilaterally. However, if there is no contravention at Customer's end, Ijarah cannot be terminated without mutual consent.

SHORT TERM FINANCINGS:

CONVENTIONAL BANKING	ISLAMIC BANKING
LENDING/FINANCING	
Running Finance: This is a short-term finance and is used to meet short-term funding requirements of the borrowers. This type of finance does not have a fixed number of payments, as in the case of instalment finances. Running Finance is a revolving finance. Once the finance limit is approved, then the borrower is free to withdraw amounts to the extent of that limit. The borrower can withdraw and repay the amount as many times as he wishes to; but he has to pay mark-up on the amount which he has actually used on monthly basis. **Cash Finance:** This facility is generally provided against pledge of goods. Under this type of financial accommodation, the facility amount is disbursed in a specially opened account for the purpose. **Bridge Finance Facility:** Short-term loan advanced to cover the period between the termination of one loan and the start of another.	**Running Musharakah:** Running Musharakah is business partnership between two or more parties whereby each partner contributes a specific amount of money with distribution of profit in agreed ratio and distribution of loss in the ratio of capital invested. This is a Shirk-ul-Aqd based financing facility offered to the customers where the Bank participates in the operating activities of the customer and shares profit and loss as per the actual performance of the business. **Murabaha:** Sale of commodities and assets at cost plus an agreed profit whereby the seller informs the purchaser of the cost at which he purchases the product and also discloses the amount of profit. Under Murabaha financing, the customer is usually made agent for the procurement of the goods he requires and upon procurement, the goods are sold to the customer on deferred payment basis. The customer makes payment for these goods as per pre-agreed schedule. **Salam:** Salam is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advanced price fully paid on spot. The contract of Salam creates a moral obligation on the Salam seller to deliver the goods. The Salam contract cannot be cancelled unilaterally once signed. **Tijarah:** Tijarah is a working capital solution especially for those customers who sell their inventory on credit and require funds for operations during the credit period. In Tijarah, the Bank purchases the finished goods from the customer and after taking the delivery, sells the goods in the market.

	Istisna: Istisna is a sale contract between a contract owner and contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price. The payment for the sale may be in advance, credit, installment or any other maturity term.