

ISLAMIC INVESTMENT

In the last article, we discussed Risk Management and Takaful and how they relate to financial planning. We have learnt that Takaful is the Islamic solution to wealth protection. We now look at Islamic Investment, the second component of Islamic financial planning. The major theme of Investment is wealth accumulation. Islamic investment is simply defined as wealth accumulation according to Islam.

We have been advised and trained since childhood by our parents and teachers on having saving habits and plan to spend on things that we desire within our means. This is the basis of making a financial planning decision that will help us keep our spending plans and also help our children develop financial planning skills at an early age. Naturally, as we mature, we have our own desires and dreams. We need a good investment planning that can turn our financial aspiration from dreams into realities.

Key concepts of investment

First, we must differentiate between saving and investment. Saving is putting aside a portion of one's income for future financial needs. The primary aim is to preserve the capital so that you have the money when the need arises.

Investment is risking the amount saved to earn profits. These profits or commonly referred to as returns are derived from capital gains or dividends. Therefore, through investments we create wealth.

Wealth creations are subjected to Shariah rules. But, what is Shariah?

Shariah is guidance from Allah

Technically, Shariah refers to the body of Islamic law based on Divine guidance that covers all aspects of the Islamic faith, including beliefs, practices and ethics.

Shariah is based on:

1. Primary sources – the Quran and the *Sunnah* (sayings and doings of Prophet Muhammad)
2. Secondary sources – *Ijmak* (consensus), *Qiyas* (analogy) and *Maslahah mursalah* (public interest), etc

Shariah consists of rules, commands, prohibitions, values prescribed by Allah for His slaves, encouragements, His promises, etc – or simply guidance as said earlier. Even though many people refer Shariah as Islamic law, it should truly be appreciated as the entire body of knowledge set out to structure the Islamic way of life – and not just the laws. Perhaps, it is in this context that the literal meaning of Shariah i.e. “path to the water source” – and water being the source of life for all – can be best understood.

Allah is the absolute owner of wealth and man acts as trustee

“To Him belongs whatever is in the heavens and on earth; and all that is between them and all that is beneath the soil” (Quran, 20:6). This concept is easy to understand when we view Allah as the Creator of things. Whatever something of value that men have created, it is always out of something that Allah has created. In this regards, man has created nothing, truly. Whatever wealth that man has accumulated for himself, he only acts as a trustee. Surely he will consume some for himself and family but the balance basically man holds the wealth on behalf of Allah for the benefits of his fellow mankind, especially those who are poor and needy.

Islam encourages wealth accumulation

The Prophet, peace be upon him, said that “Being envious is not allowed except in two cases: towards a person to whom Allah has granted knowledge and wisdom, and who practices and rules by this and teaches it to the people, and towards a person to whom Allah has granted wealth and property along with the power to spend it in the cause of Truth.” Envy is a trait that is cancerous to man’s well-being. If envy is not treated, man will do all sorts of things without regards to get what he wants. Basically, envy drives man to his goal recklessly and the Muslim must not harbor envious feelings.

However, envy is allowed when we see a wealthy man who spends for charity. Spending for the cause of Allah is highly encouraged as this will lead the Muslim to al-Falah (success). So, if we do not have the wealth to spend for charity, we must work hard and take risk to get more wealth. Simply, to have this intention and to endeavor is very noble. This is the primary lesson of Islamic wealth accumulation.

At this juncture, we should revisit the second Islamic worldview of financial planning, namely, wealth is a trust (Amanah) from Allah that must be administered properly, for a fuller understanding.

While wealth accumulation is encouraged, Islam has laid out rules on how the Muslim must carry out his endeavor. It is in this context that Shariah is seen as Islamic laws.

The Muslim need to follow Shariah rules because on the Judgment day, regarding his wealth, he shall be asked how did he earn it and how did he spend it (as provided in a Hadith related by Tirmidzi).

Key Principles of Islamic Investment – Prohibition of *Riba*, *Maisir* and *Gharar*

Man is born without a single thread on him. For all the wealth he accumulates, it is either through inheritance, wages, trading/business profits or investment returns. The Muslim must earn his wealth honorably and without oppressing others.

Muslims are prohibited from engaging in *Riba*, *Maisir* and *Gharar* and from doing business in activities that are against Shariah such as brewery, pork breeding, night clubs, pornography, cigarettes, etc in his endeavor for wealth.

We now look at some definitions of these key principles.

The literal meaning of Riba is the addition or increase or growth. Technically, it refers to the “premium” that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or an extension in its maturity. Interest as practiced in conventional banking is regarded by a predominant majority of Islamic scholars to be equivalent to riba.

Maisir is gambling or any game of chance whereby one party will lose at the expense of the other.

Gharar literally means deception, danger, risk and uncertainty. Technically, it means exposing oneself to excessive or unnecessary risks and danger in a business transaction as a result of uncertainty about terms of the deal, such as the price, quality or quantity of the counter-value, the date of delivery or the ability of the buyer or the seller to fulfill his commitment. Being an element of deception, Gharar can be either through ignorance of an essential element of the goods, the price, or through faulty description of the goods, in which one or both parties stand to be deceived.

Some reasons for the prohibitions

There have been many expositions by scholars on the reasons for the prohibition of Riba, Gharar and Maisir. Briefly, for Riba, it is simply repulsive to take advantage of a needy person. Lending money is gratuitous act and to stipulate a price for the money being lent is certainly not being compassionate. The continued practice of Riba has resulted in the inequitable distribution of wealth and the gross socio-economic injustice being suffered by societies across the world. At any rate, while the prohibition of Maisir is easy to understand – just consider that gambling is a sickness according to the medical doctors –, to appreciate the case for Riba and Gharar require some effort in understanding.

There are much more that one must know about Islamic Investment and for the Muslims to know why they must keep their wealth accumulation endeavors in compliant to Shariah. In this regard, the Muslims in Malaysia should consider themselves as blessed because the task is made so easy with the many Shariah compliant investment products available. There are Stocks, Units Trusts, Bonds, REITs, Structured products and various banking products that are Shariah compliant for the Muslims to use.

Islamic financial planners’ role is to educate the Muslims

Indeed, there is no excuse for Muslims to continue using non-Shariah compliant investments any further. But, why are they still doing it? It has to do with the overall understanding of Islamic financial products – the general Muslim public lacks it. One role of the financial planners is to educate the public on the benefits of financial planning. It is certainly the role of Islamic financial planners to educate the Muslims on the benefits of being in compliant to Shariah in wealth accumulation and to raise the level of Islamic financial literacy in general.